

15 February 2011

MF Global Company Update

Hindustan Unilever Ltd.

| Strong traction ahead

FMCG

HUVR IN:

Upgrade to Buy

RS 273

We upgrade HUL to Buy from Neutral with a price target of Rs 320 from Rs 290 based on the following reasons:

- » **Volume growth to sustain in FY12E:** HUL has been able to sustain double-digit volume in the last 4 quarters. The volume growth sustained by HUL in the last 4 consecutive quarters is the strongest in the last 5 years. We expect the volume growth to sustain over FY12E as the Unilever Group* has taken a strategic stance to aggressively grow volumes in India and gain volume market share.
- » **Price hikes will be calibrated:** We assess that HUL's price hikes will be calibrated in such a manner that they are unlikely to negatively impact volume growth. We also note that HUL's price hikes are mostly roll back of price cuts affected in FY10 and the current product prices are not significantly different than FY09. Thus, with other FMCG companies also resorting to price hikes to mitigate input cost pressures, HUL's volume growth will be unaffected by the price hikes.
- » **Advertising spends peaking:** HUL has enough room to cut advertising spends as HUL's advertising spends have risen significantly above the long-term average of 11% to 15% in FY11E. Although advertising spends are likely to remain at elevated levels, but the company can efficiently utilise mediums to reduce advertising spends. We build for 100bps decline in advertising spends in FY12E and FY13E, but we see more room to cut expenses as competitive intensity is likely to reduce on account of rising input costs.
- » **HUL is better placed in a high input cost regime as competitive intensity will decline:** We believe that the prices of key input commodities like palm oil, crude derivatives and others are likely to remain at elevated levels in FY12E. In this scenario, gross margins will be impacted and companies with higher operating leverage will see pressure on EBITDA margins if advertising expenses are not cut. Thus, HUL's strengths of scale, strong brands and distribution reach will help the company outperform in the current environment.
- » **Earnings upgrade, revision of price target and recommendation upgrade:** We forecast for 22% earnings CAGR and 22% EBITDA CAGR for FY11-13E, driven by revenue growth and margin improvements. We value the company at 22x FY13E earnings at Rs 320, which implies an upside of 17% from the current levels. Hence, we upgrade the stock to Buy.

TARGET RS 320 (+17%)

STOCK RATING

BUY	NEUTRAL	SELL
> 15%	-15% TO +15%	< -15%

COMPANY DATA

O/S SHARES :	2182MN
MARKET CAP (RS) :	596BN
MARKET CAP (USD) :	13.1BN
52 - WK HI/LO (RS) :	329 / 218
LIQUIDITY 3M (USD) :	15.9MN
FACE VALUE (RS) :	1

SHARE HOLDING PATTERN, %

PROMOTERS :	52.0
FII / NRI :	17.5
FI / MF :	12.9
NON-PROMOTER CORP. HOLDINGS :	2.6
PUBLIC & OTHERS :	15.0

PRICE PERFORMANCE, %

	1MTH	3MTH	1YR
ABS	-9.7	-9.4	17.1
REL TO BSE	-6.2	0.3	4.4

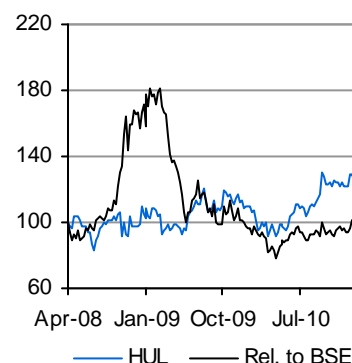
VALUATION SUMMARY

Y/E MAR, RS MN	FY2009	FY2010	FY2011E	FY2012E	FY2013E
TOTAL INCOME	208,291	178,734	198,998	229,305	252,171
CORE EBITDA	32,458	28,981	28,086	33,822	41,470
EBIDTA MARGINS, %	16.0	16.5	14.5	15.1	16.8
NET PROFIT	25,008	21,027	20,911	25,420	31,095
PAT MARGINS, %	12.0	11.8	10.5	11.1	12.3
EPS, RS	11.4	9.6	9.6	11.7	14.2
EPS GROWTH, %	44.4	(15.4)	(0.6)	21.6	22.3
PER, X	23.9	28.3	28.5	23.4	19.2
EV/EBIDTA, X	17.8	19.5	20.7	17.0	13.6
EV/NET SALES, X	2.9	3.2	3.0	2.6	2.3
ROIC, %	397.1	482.7	375.0	233.1	319.9
ROE, %	869.5	90.5	75.9	82.5	84.8

Source: Company, MF Global India Research Estimates

*Unilever Group – UNA NA and ULVR LN (Sell Rating) by Andy Smith (MF Global UK Ltd)

PRICE VS. SENSEX

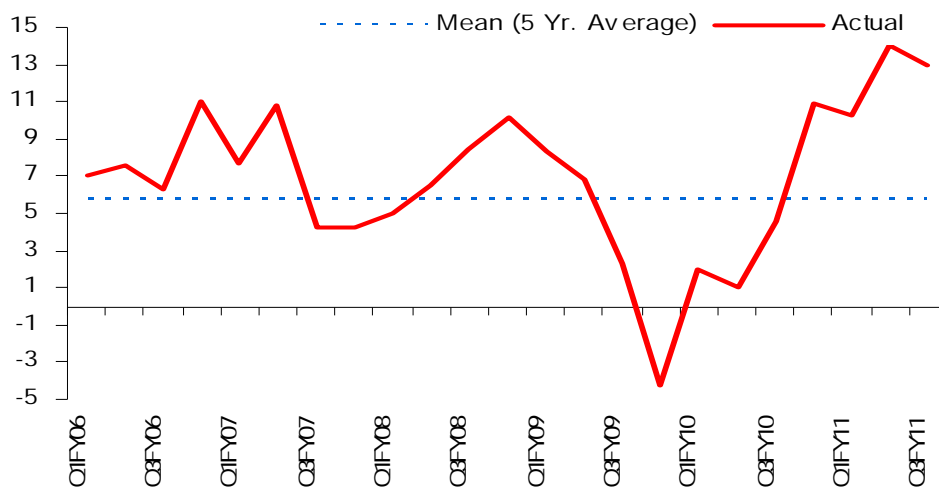


Source: Bloomberg, MF Global India Research

Strong volume growth to sustain in FY12E

HUL's volume growth in the last 4 quarters has been significantly higher than the 5-year mean of 6%. We find this to be an outcome of a long-term strategic intent of the Unilever Group to aggressively grow volumes and market shares in the emerging markets. India is HUL's largest exposure to emerging economies. It can be observed from Unilever Group's results (Q4CY10) that advertising expenses have decreased by 170bps on account of reduction in advertising expenses in developed economies, but on the other hand, advertising expenses in India (HUL advertising expenses at 14.8% of sales in Q3FY11) have moved up significantly. This clearly illustrates the strategic intent of the group to focus more on emerging economies like India where the company is witnessing stronger economic growth.

QUARTERLY Y-O-Y VOLUME GROWTH



Source: Company

We believe that volume growth for HUL is unlikely to come down significantly from the current levels as HUL, even after taking into consideration the base effect, has gained considerable traction in volume, driven by sharp investment behind the brands. We also see that HUL's dependence on the wholesale channel is comparatively lower compared to other FMCG companies. HUL continues to expand its distribution network and rural reach which will provide stable volume and revenue growth, and thus chances of volume growth trend dipping sharply are remote.

We also believe that government's expenditure on rural markets is likely to increase with NREGA schemes being proposed to be indexed to inflation (CPI-AL) in the current fiscal budget. If NREGA schemes are indexed to inflation, then the government's outlay on NREGA will increase by almost 50%. Thus, the government's inclination to raise expenditures on rural sector employment shall be the key point to focus on for FMCG companies in this budget. We believe that in all likelihood, the government will increase its spending on rural markets, but the quantum remains slightly uncertain. We expect this will aid HUL which has a significant share of revenues from the rural areas. HUL's exposure to rural areas is much higher than its peers with almost 50% of its revenues coming from rural areas.

Thus, volume growth is unlikely to flag, considering both a top-down and bottom-up scenario for HUL as the macro environment is conducive, backed by the company's strategic intent to achieve significant volume growth.

Price hikes will be calibrated

HUL has historically grown revenues by taking price hikes in conjunction with volume growth. HUL has the strength of brands to take price hikes and grow value, but we assess the strategic intent of HUL to take calibrated price hikes to sustain volume growth. We strongly believe that it is not just the percentage points of price hikes, but also the levels of product prices which dictate volume growth and consumer uptake. Historically, we have seen HUL losing market share on account of price hikes, but we find the current level of prices after the recent round of price hikes are mere roll-backs of sharp price cuts affected in FY10. Thus, the current price points are not significantly different from FY09.

DETERGENT POWDER PRODUCT PRICE TREND (2-3 YEARS)

	SKU (KG.)	MRP (RS.)				CURRENT	
		EARLIER MRP	JUL-08	NOV-08	JAN-10	SKU (KG.)	MRP (RS.)
SURF EXCEL BLUE	4	372	400				421
SURF EXCEL BLUE	1.5	140	150				178
SURF EXCEL BLUE	0.75	72	76	98	93		82
SURF EXCEL BLUE	0.5	49	52	62	55	0.475	55
SURF EXCEL QUICKWASH	2	240	250			2	295
SURF EXCEL QUICKWASH	1	122	125	145		1	154
SURF EXCEL QUICKWASH	0.5	66	68	78		0.5	78
RIN ADVANCED	1	57	60	70	50	1	70
RIN ADVANCED	0.5	29	30	35	25	0.5	35
ACTIVE WHEEL	1			32	30	1	30

Source: Company, MF Global India Research

PERSONAL WASH, ORAL CARE AND BEVERAGES PRODUCT PRICE TREND (2-3 YEARS)

	SKU (GM.)	EARLIER MRP (RS)	JUL-08	NOV-08	JAN-10		CURRENT	
					SKU (GM.)	MRP (RS.)	SKU (GM.)	MRP (RS.)
LUX	100	16	17	18	110	15	100	17
LUX	150	24	26				135	28
LIFEBUOY	90			13	80	10	80	10
LIFEBUOY	150			15	120	15	120	16
HAMAM	100	16	17				100	18
LIRIL	75				75	19	75	20
DOVE	75				75	33	75	34
PEARS	80				80	26	80	27
CLOSE UP	150	50		53			150	55
CLOSE UP	80	29		30			80	33
PEPSODENT	175	51		53			175	56
PEPSODENT	80	24		25			80	25
TAJ MAHAL	985	275		299			985	345
TAJ MAHAL	490	150		162			490	166
TAJ MAHAL	245	76		82			245	85
RED LABEL	245	59		63			245	73

Source: Company, MF Global India Research

PERSONAL CARE PRODUCT PRICE TREND (2-3 YEARS)

	SKU (ML)	EARLIER MRP (RS)	JUL-08	CURRENT	
				SKU (ML)	MRP (RS.)
FAIR & LOVELY MULTIVITAMIN	50	59	62	50	68
FAIR & LOVELY MULTIVITAMIN	80	85	90	80	99
VASELINE	100	52	55	100	45
PONDS BODY LOTION	100	38	40	100	40
PONDS TALC	400	87	93	400	87

Source: Company, MF Global India Research

We have also seen competition taking price hikes which will help HUL in sustaining volume growth. Thus, when compared to the pricing scenario in FY09 when the company lost significant market share, HUL's price points were much higher, but in the current scenario, if we look into personal wash and laundry, HUL's price points are not significantly different. Thus, with HUL's advantages of distribution reach and investments in brands, volume share growth will continue to outpace the competition and gain market share.

CURRENT FMCG PEERS PRODUCT PRICES FOR PERSONAL WASH AND DETERGENTS

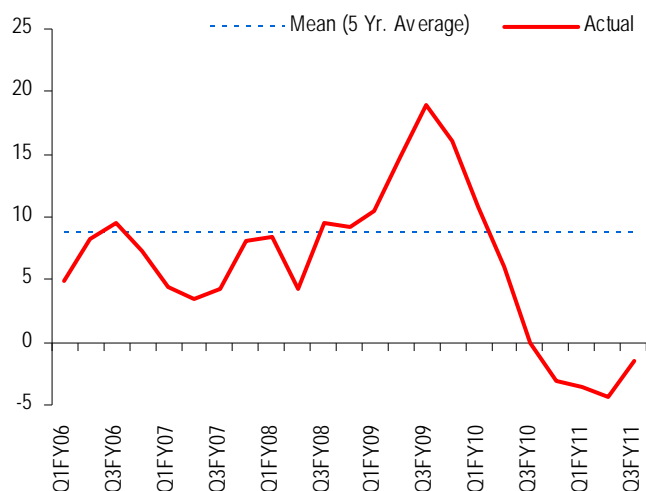
	SKU	OLD MRP. (RS)	CURRENT MRP. (RS)	
GODREJ NO. 1	PACK OF 4 (115 GM EACH)	50	52	FEB-11
SANTOOR	115 GM	17	18	NOV-10
DETTOL	120 GM	29	30	OCT-10

	OLD SKU	CURRENT SKU (RS)	CURRENT MRP. (RS)	
TIDE	1 KG + 250 GM (FREE)	1 KG	70	SEP-10

Source: Company, MF Global India Research

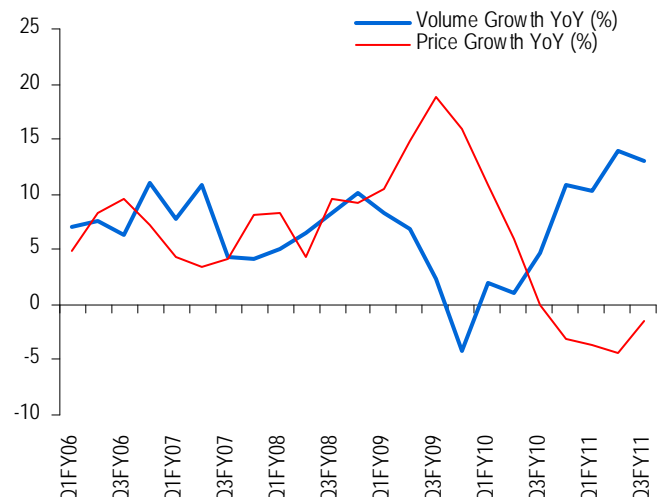
We see that HUL has been able to manage value growth by taking price hikes. HUL's last 5-year average price growth was 8.8%. HUL's price has been in the negative territory in the last 4 quarters. We see that after taking the currently announced price hikes, value growth on YoY basis will start taking traction from Q1FY12E. We believe that the full impact of price hikes (assuming some price hikes in FY12E) on margin improvement will be in FY13E, which will lead to sharper EBIDTA and earnings growth.

QUARTERLY PRICE GROWTH YOY (%)



Source: Company

QUARTERLY PRICE GROWTH VS. VOLUME GROWTH Y-O-Y (%)

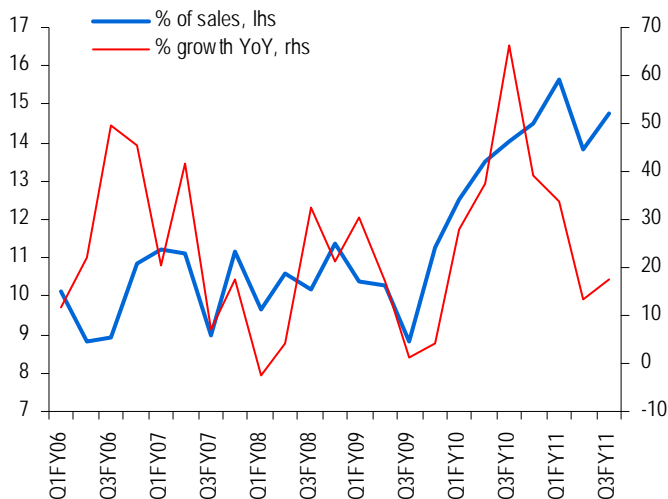


Advertising spends peaking

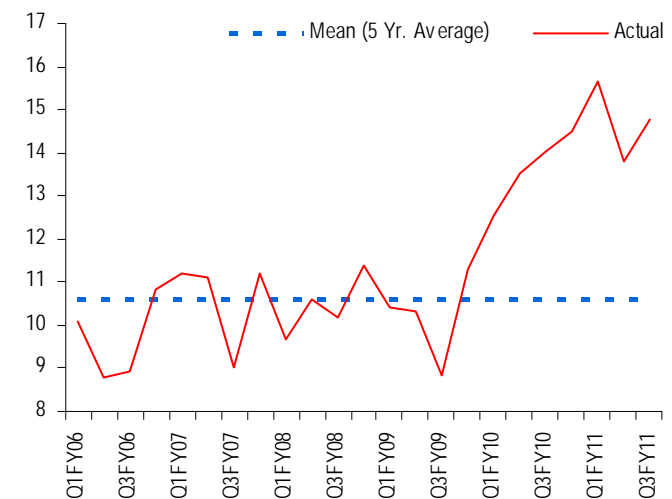
Value and volume growth or decline come with lag as advertising spends increase or decrease. HUL's advertising spends have risen sharply in the last 2 years. The company has managed to gain significant volume traction on account of brand investments in the last 4 quarters. We expect the traction to persist as advertising spends over the next two years are close to peaking.

We see that advertising spends for HUL in FY11 are at an all-time high on an absolute basis and as a percentage of sales. The company's advertising spends have increased to 15% from the long-term average of 10%-11%. HUL's FY11E advertising spends are much higher than most Indian FMCG companies and Unilever Group's average of 13.5%. Although, considering the strategic intent and focus on volume growth, advertising spends are likely to remain at elevated levels, but we believe that the company has enough scope to utilise mediums efficiently and cut advertising expenses to lower levels (as a percentage of sales). We build absolute growth in advertising spends taking into consideration media inflation, implying that advertising volumes will be maintained. This will translate into savings of 100bps on EBITDA margins for the company.

QUARTERLY AD EXP/SALES (%) AND AD EXP Y-O-Y GROWTH (%)

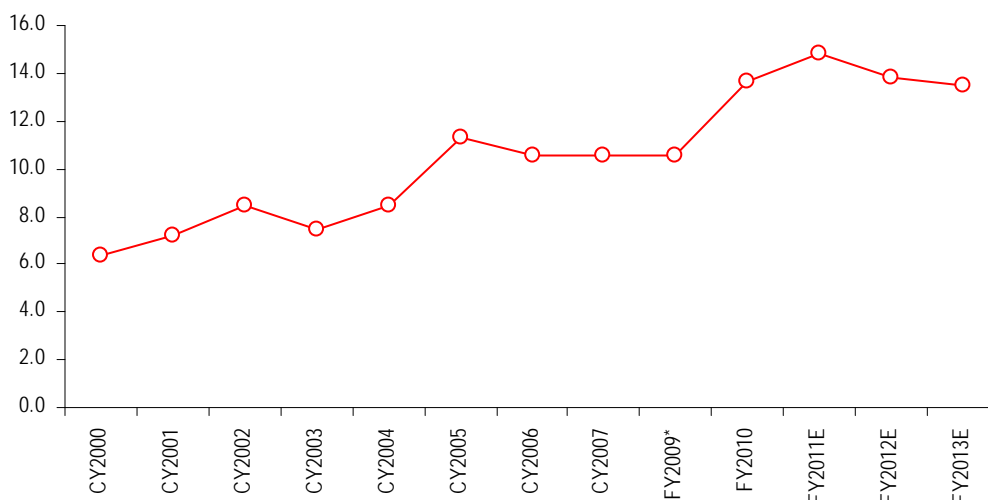


QUARTERLY AD EXP/SALES (%)



Source: Company

ANNUAL AD EXP / SALES (HISTORICAL AND FORECAST)



Source: Company, MF Global India Research

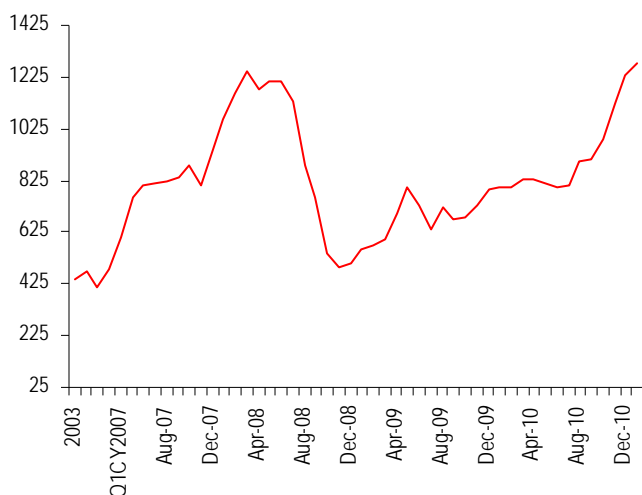
* 15 months

We expect advertising spends for other FMCG companies could reduce in the current environment marked by input cost inflation leading to a decline in competitive intensity on account of contraction in contribution margins. Thus, HUL could have more room to cut advertising spends from the current levels, but still maintain an above long-term mean rate of spending. Thus, value growth is to a certain extent a function of strategic intent for HUL than a function of market forces which are beyond any company's control. This is one major factor for our positive stance on HUL.

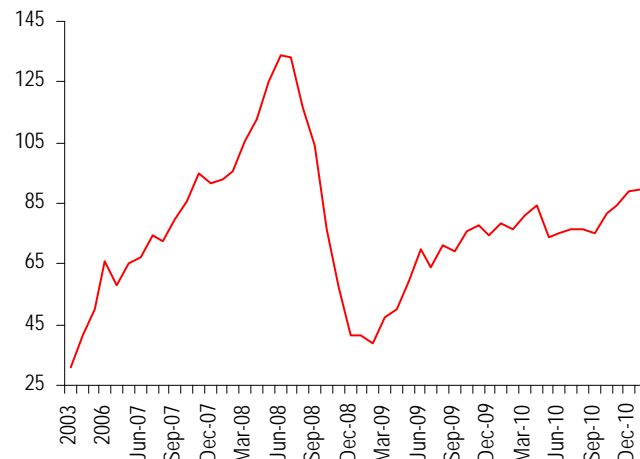
HUL is better placed in a high input cost regime as competitive intensity will decline

We believe that current inflation in the key input commodities is a structural phenomenon, driven by rising consumer demand in the emerging economies. We believe that the prices of key input commodities like palm oil, crude derivatives and other are more likely to persist at elevated levels.

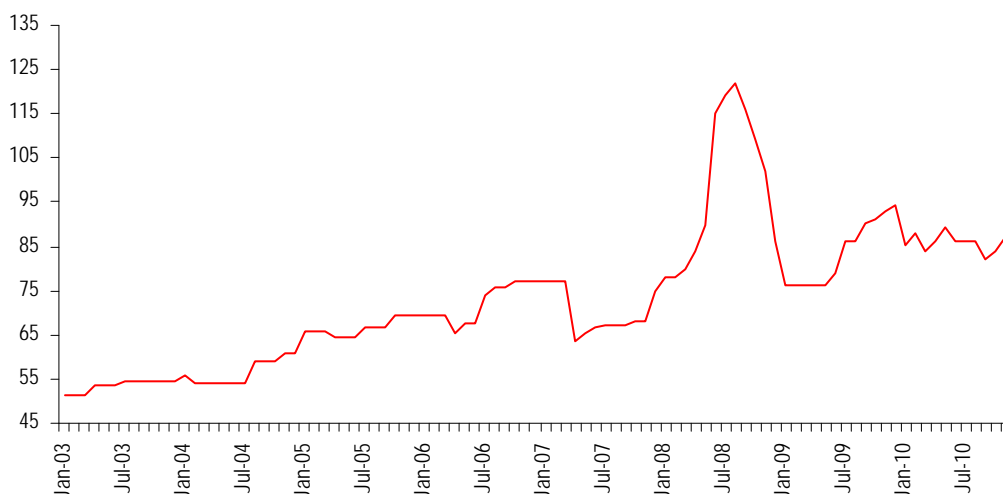
PALM OIL (US\$/MT)



CRUDE OIL (US\$/BBL)



LAB (RS/KG)

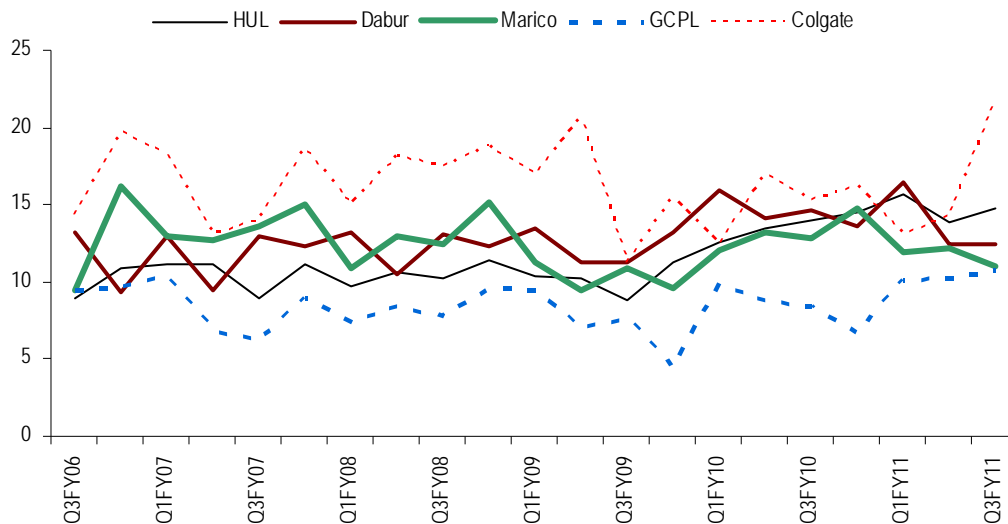


Source: World Bank, RIL, MF Global India Research

This will result in a decline in gross margins for most FMCG companies and thus, their ability to invest behind brands. We believe that companies with higher operating leverage will be more severely affected as their ability to invest in brands will be curtailed. HUL has lower operating leverage compared to other FMCG companies and can continue to invest in brands in an inflationary environment. We see that even when HUL has witnessed strong compression in

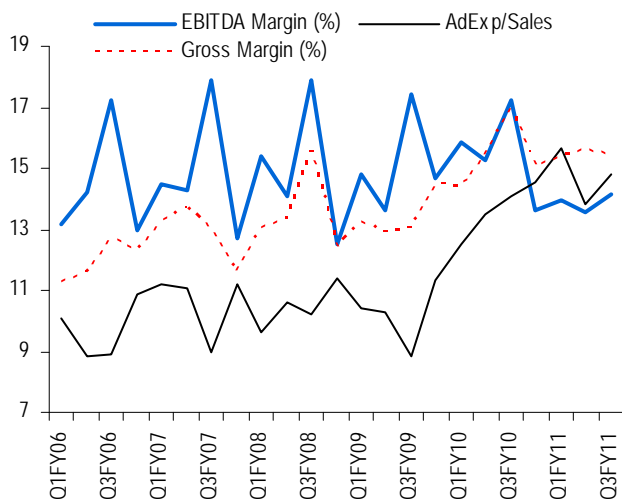
gross margins, advertising spends do not reduce in line with gross margin compression. This is on account of scale of benefits that HUL enjoys, compared to other FMCG players, but on the other hand, we see significant reduction in advertising spends by other players to protect their margins. We have seen reduction in advertising spends by companies like Marico and Dabur on account of input cost pressures.

HUL AND PEER'S QUARTERLY AD EXP/SALES



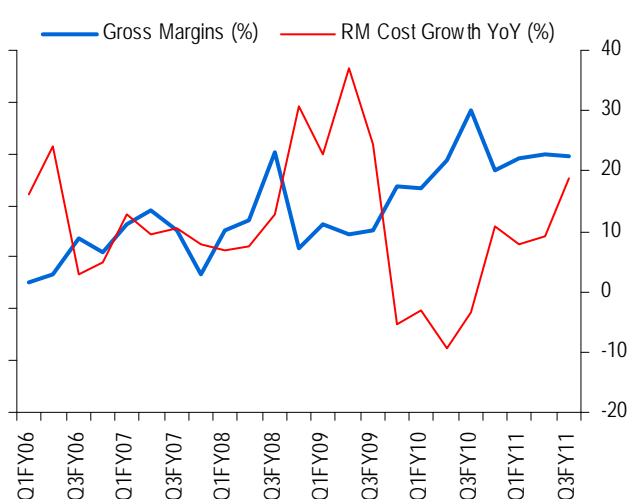
Source: Company, MF Global India Research

HUL QUARTERLY GROSS MARGIN, EBITDA MARGIN AND AD EXP/SALES (%)

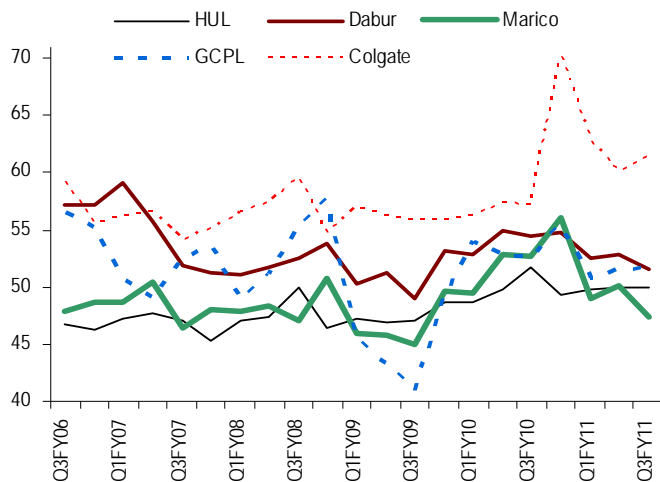


Source: Company

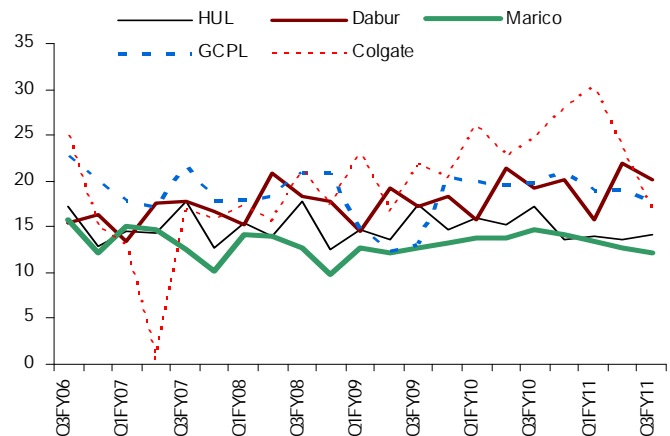
HUL QUARTERLY GROSS MARGIN AND RM COST GROWTH YOY (%)



HUL AND PEER'S QUARTERLY GROSS MARGIN (%)



HUL AND PEER'S QUARTERLY EBITDA MARGIN (%)



Source: Company, MF Global India Research

Although, crude prices are much lower than peak levels of CY08, but palm oil prices are higher than CY08 levels. We build for gross margins similar to FY09 and marginally cut advertising expenses as illustrated in the previous sections. We see that EBITDA margins continue to improve in FY12E and FY13E, indicating the resilience of HUL's business model in an inflationary environment.

Valuation and Recommendation

HUL trades largely in line with the sector peers. We believe that HUL is likely to outperform the other FMCG companies in the current environment marked by inflationary pressures. Thus, HUL could even command a premium valuation over the sector.

FMCG PEER VALUATION MARTIX

COMPANY	P/E		P/B		ROE		EV/SALES		EV/EBITDA		EBITDA (%)	
	FY11E	FY12E	FY11E	FY12E	FY11E	FY12E	FY11E	FY12E	FY11E	FY12E	FY11E	FY12E
GCPL	23.0	19.0	6.5	5.5	36.7	31.4	3.4	2.7	18.4	15.1	18.6	18.1
DABUR	28.2	25.3	16.3	14.9	60.1	61.6	4.1	3.6	22.9	20.7	17.9	17.3
MARICO	25.1	21.1	8.7	7.0	39.2	37.0	2.6	2.2	18.5	14.8	14.1	14.9
HUL	28.5	23.4	20.3	18.4	75.9	82.5	3.0	2.6	20.7	17.0	14.5	15.1

Source: Company, MF Global India Research Estimates

We value the company at 22x FY13E earnings implying a PEG of 1 at Rs 320. Our target price implies an upside of 17% which combined with a dividend yield of ~3% over 1 year will return 20%. Our valuation is conservative and stock could see a re-rating on account of persistence of volume growth in the wake of price hikes, notwithstanding the base effect.

Revision of Estimates

(Rs mn)	Earlier estimates		Revised estimates		Upgrade/(downgrade) (%)	
	FY11E	FY12E	FY11E	FY12E	FY11E	FY12E
Net Sales	194,484	211,628	193,830	223,620	(0.3)	5.7
EBITDA	28,618	33,447	28,086	33,822	(1.9)	1.1
EBITDA margin (%)	14.7	15.8	14.5	15.1	(22)	(68)
PBT	27,777	32,299	26,985	32,715	(2.9)	1.3
Adj PAT	21,783	25,353	20,872	25,420	(4.2)	0.3
Adj PAT margin (%)	11.2	12.0	10.8	11.4	(43)	(61)
Adj EPS (Rs)	10.0	11.6	9.6	11.7	(4.2)	0.4

Source: MF Global India Research Estimates

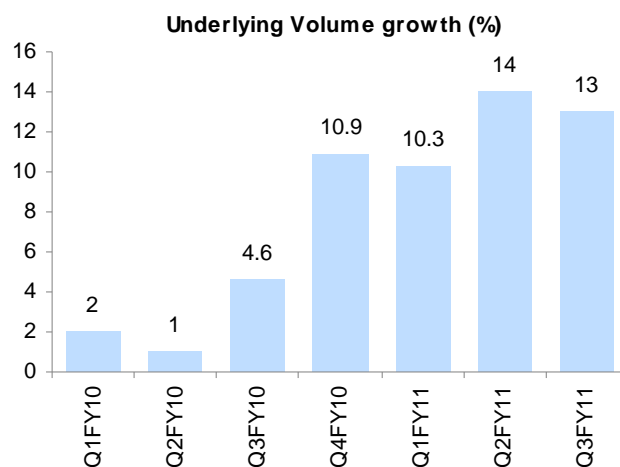
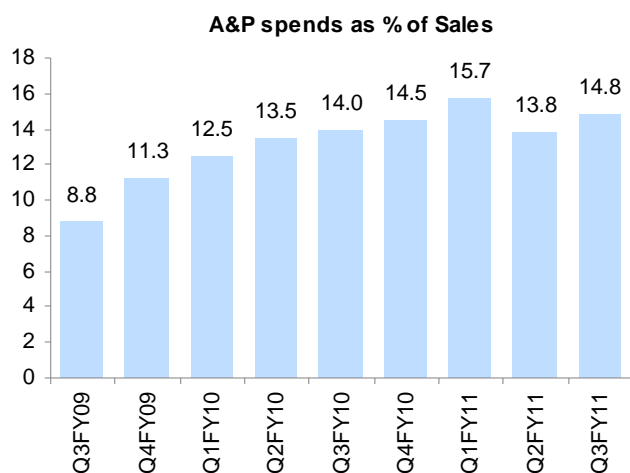
Annexure

QUARTERLY RESULT

(RS MN)	Q3FY11	Q2FY11	QOQ, %	Q3FY10	YOY, %
NET SALES	50,270	46,809	7.4	45,043	11.6
GROWTH, %	11.6	10.7		4.6	
TOTAL INCOME	51,277	47,647	7.6	45,732	12.1
OPERATING EXPENSES	44,027	41,178	6.9	37,857	16.3
EBITDA	7,250	6,469	12.1	7,876	-7.9
MARGIN, %	14.4	13.8		17.5	
DEPRECIATION	563	554	1.7	450	25.1
EBIT	6,687	5,915	13.0	7,426	-10.0
MARGIN, %	13.3	12.6		16.5	
INTEREST PAID	1	1	-14.3	2	-68.4
OTHER NON-OPERATING INCOME	770	768	0.3	389	98.1
PRE-TAX PROFIT	7,456	6,683	11.6	7,812	-4.6
TAX PROVIDED	1,724	1,426	20.9	1,766	-2.4
MINORITY INTEREST	0	0		0	
MF NET PROFIT	5,732	5,257	9.0	6,047	-5.2
REPORTED PAT	6,375	5,661	12.6	6,492	-1.8
GROWTH, %	-5.2	-6.7		-8.8	
MARGIN, %	12.7	12.1		14.4	
EXTRAORDINARY ITEMS: GAINS/(LOSSES)	643	404		445	
REPORTED FULLY DILLUTED EPS, RS	2.9	2.6	12.3	3.0	-2.0

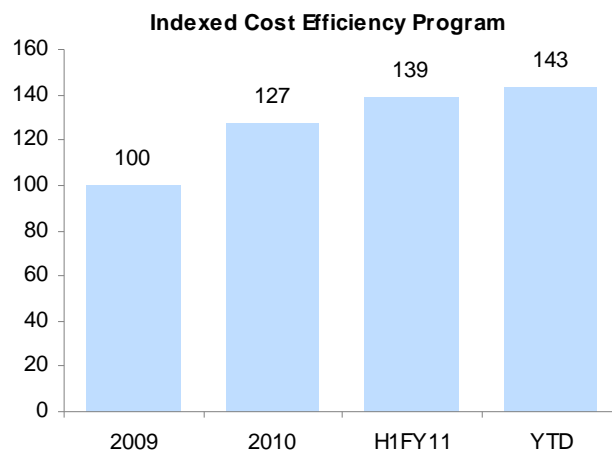
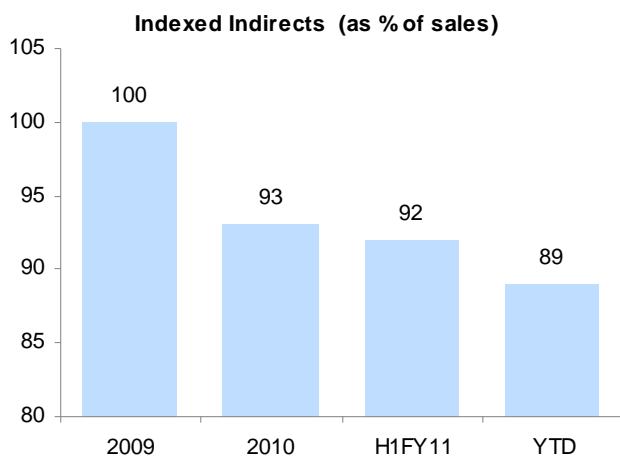
Source: Company, MF Global India Research

Q3FY11 AD SPENDS AND VOLUME GROWTH



Source: Company, MF Global India Research

Q3FY11 COST CONTROL EFFICIENCY



Source: Company, MF Global India Research

QUARTERLY SEGMENT PERFORMANCE

RS MN	Q4FY09	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11
SOAPS & DETREGENTS	20121.90	22115.30	20036.90	20719.40	19784.80	22644.60	21293.80	21929.30
QOQ GROWTH %	(5.24)	9.91	(9.40)	3.41	(4.51)	14.45	(5.97)	2.98
YOY GROWTH %	15.76	9.46	0.88	(2.42)	(1.68)	2.39	6.27	5.84
PERSONAL PRODUCTS	10386.00	12255.10	11901.80	13770.00	12552.10	13655.10	13648.50	16546.80
QOQ GROWTH %	(12.89)	18.00	(2.88)	15.70	(8.84)	8.79	(0.05)	21.24
YOY GROWTH %	1.94	14.75	13.39	15.49	20.86	11.42	14.68	20.17
BEVERAGES	4892.90	4995.80	5215.80	5511.00	5701.70	5378.40	5700.00	6022.10
QOQ GROWTH %	(4.18)	2.10	4.40	5.66	3.46	(5.67)	5.98	5.65
YOY GROWTH %	13.53	18.55	17.96	7.93	16.53	7.66	9.28	9.27
PROCESSED FOODS	1633.90	1721.00	1739.20	1871.90	1975.70	2111.10	2194.90	2219.40
QOQ GROWTH %	(4.70)	5.33	1.06	7.63	5.55	6.85	3.97	1.12
YOY GROWTH %	7.51	14.74	0.02	9.18	20.92	22.67	26.20	18.56
ICE CREAM	452.80	885.90	503.60	377.50	553.00	1046.40	549.10	480.90
QOQ GROWTH %	32.13	95.65	(43.15)	(25.04)	46.49	89.22	(47.52)	(12.42)
YOY GROWTH %	22.44	23.04	8.05	10.15	22.13	18.12	9.03	27.39
EXPORTS	2204.70	2574.70	2270.00	2652.70	2555.10	2647.70	2647.00	2909.10
QOQ GROWTH %	(17.36)	16.78	(11.83)	16.86	(3.68)	3.62	(0.03)	9.90
YOY GROWTH %	(44.73)	(34.56)	(23.34)	(0.56)	15.89	2.84	16.61	9.67
OTHERS	675.00	794.10	1070.50	958.30	644.30	1125.80	1527.10	1110.50
TOTAL	40367.20	45341.90	42737.80	45860.80	43766.70	48609.10	47560.40	51218.10

CONTRIBUTION (%)	Q4FY09	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11
SOAPS & DETREGENTS	49.85	48.77	46.88	45.18	45.21	46.59	44.77	42.82
PERSONAL PRODUCTS	25.73	27.03	27.85	30.03	28.68	28.09	28.70	32.31
BEVERAGES	12.12	11.02	12.20	12.02	13.03	11.06	11.98	11.76
PROCESSED FOODS	4.05	3.80	4.07	4.08	4.51	4.34	4.61	4.33
ICE CREAM	1.12	1.95	1.18	0.82	1.26	2.15	1.15	0.94
EXPORTS	5.46	5.68	5.31	5.78	5.84	5.45	5.57	5.68
OTHERS	1.67	1.75	2.50	2.09	1.47	2.32	3.21	2.17

SEGMENT RESULTS, RS MN	Q4FY09	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11
SOAPS & DETERGENTS	3335.30	3814.70	2726.20	2784.50	2527.30	2487.50	2501.00	1693.30
SEGMENT MARGINS %	16.58	17.25	13.61	13.44	12.77	10.98	11.75	7.72
YOY CHANGE (IN BPS)	319.90	254.28	9.05	(304.85)	(380.15)	(626.42)	(186.07)	(571.75)
PERSONAL PRODUCTS	2389.40	2698.60	3133.70	4399.20	2733.70	3387.90	3139.80	4768.50
SEGMENT MARGINS %	23.01	22.02	26.33	31.95	21.78	24.81	23.00	28.82
YOY CHANGE (IN BPS)	(169.86)	(581.69)	198.75	(87.93)	(122.71)	279.03	(332.49)	(312.95)
BEVERAGES	655.10	703.30	887.30	817.30	789.60	695.30	875.70	1013.80
SEGMENT MARGINS %	13.39	14.08	17.01	14.83	13.85	12.93	15.36	16.83
YOY CHANGE (IN BPS)	183.35	(51.16)	286.56	207.75	45.97	(115.02)	(164.86)	200.43
PROCESSED FOODS	(44.70)	(12.80)	(9.30)	(12.50)	79.00	105.50	100.30	(160.60)
SEGMENT MARGINS %	(2.74)	(0.74)	(0.53)	(0.67)	4.00	5.00	4.57	(7.24)
YOY CHANGE (IN BPS)	(387.41)	(326.39)	(203.57)	160.69	673.44	574.11	510.44	(656.84)
ICE CREAM	(18.60)	154.80	25.20	(37.40)	(15.70)	153.20	54.80	(5.80)
SEGMENT MARGINS %	(4.11)	17.47	5.00	(9.91)	(2.84)	14.64	9.98	(1.21)
YOY CHANGE (IN BPS)	373.43	(156.79)	45.56	(162.02)	126.87	(283.31)	497.60	870.12
TOTAL	6316.50	7358.60	6763.10	7951.10	6113.90	6829.40	6671.60	7309.20

Source: Company

FINANCIALS

INCOME STATEMENT

Y/E MAR, RS MN	FY2009	FY2010	FY2011E	FY2012E	FY2013E
NET SALES	202,393	175,238	193,830	223,620	246,145
GROWTH, %	48.0	-13.4	10.6	15.4	10.1
OTHER OPERATING INCOME	5,897	3,496	5,168	5,685	6,026
TOTAL INCOME	208,291	178,734	198,998	229,305	252,171
OPERATING EXPENSES	-175,833	-149,754	-170,912	-195,483	-210,701
EBITDA	32,458	28,981	28,086	33,822	41,470
GROWTH, %	51.5	-10.7	-3.1	20.4	22.6
MARGIN, %	16.0	16.5	14.5	15.1	16.8
DEPRECIATION	-1,953	-1,840	-2,190	-2,440	-2,690
EBIT	30,505	27,141	25,896	31,382	38,780
GROWTH, %	51.5	-10.7	-3.1	20.4	22.6
MARGIN, %	15.1	15.5	13.4	14.0	15.8
INTEREST RECEIVED/(PAID)	-253	-70	1,089	1,333	943
OTHER INCOME	0	0	0	0	0
PRE-TAX PROFIT	30,252	27,071	27,180	32,715	39,726
TAX PROVIDED	-5,244	-6,044	-6,113	-7,295	-8,631
PROFIT AFTER TAX	25,008	21,027	21,067	25,420	31,095
MF NET PROFIT	25,008	21,027	20,911	25,420	31,095
GROWTH, %	43.5	-15.9	-0.6	21.6	22.3
EXTRAORDINARY ITEMS: GAINS/(LOSSES)	-43	441	195	0	0
UNADJ. SHARES (M)	2,177	2,182	2,182	2,182	2,183
WTD AVG SHARES (M)	2,177	2,182	2,182	2,182	2,183

CASH FLOW

Y/E MAR, RS MN	FY2009	FY2010	FY2011E	FY2012E	FY2013E
PRE-TAX PROFIT	30,252	27,071	27,180	32,715	39,726
DEPRECIATION	1,953	1,840	2,190	2,440	2,690
CHG IN WORKING CAPITAL	-2,593	14,058	-10,962	2,391	739
TOTAL TAX PAID	-6,006	-5,984	-4,585	-7,000	-8,297
OTHER OPERATING ACTIVITIES	821	-1,610	0	0	2,825
CASH FLOW FROM OPERATING ACTIVITIES	24,426	35,375	13,824	30,546	37,683
CAPITAL EXPENDITURE	-5,660	-5,412	-4,000	-3,000	-3,000
CHG IN INVESTMENTS	-23	99	-9,413	0	0
CHG IN MARKETABLE SECURITIES	11,105	-9,413	9,413	0	0
OTHER INVESTING ACTIVITIES	0	0	0	0	0
CASH FLOW FROM INVESTING ACTIVITIES	5,422	-14,727	-4,000	-3,000	-2,999
FREE CASH FLOW	29,848	20,648	9,824	27,546	34,684
EQUITY RAISED/(REPAID)	32,137	-2,803	0	0	1
DEBT RAISED/(REPAID)	3,334	-4,219	0	0	0
DIVIDEND (INCL. TAX)	-16,936	-17,643	-16,341	-19,897	-22,384
OTHER FINANCING ACTIVITIES	0	0	0	0	0
CASH FLOW FROM FINANCING ACTIVITIES	18,536	-24,666	-16,341	-19,897	-22,383
NET CHG IN CASH	48,384	-4,017	-6,517	7,649	12,301

BALANCE SHEET

AS AT 31ST MAR, RS MN	FY2009	FY2010	FY2011E	FY2012E	FY2013E
CASH & BANK	17,773	18,922	12,210	19,859	29,333
MARKETABLE SECURITIES AT COST	2,238	11,651	2,238	2,238	2,238
DEBTORS	5,369	6,784	7,709	8,972	9,926
INVENTORY	25,289	21,799	23,685	26,251	27,709
LOANS & ADVANCES	7,421	6,006	6,638	6,665	6,693
OTHER CURRENT ASSETS	157	166	175	183	192
TOTAL CURRENT ASSETS	58,247	65,329	52,654	64,167	76,092
INVESTMENTS	1,088	990	10,403	10,403	10,403
GROSS FIXED ASSETS	28,817	35,820	39,820	42,820	45,820
LESS: DEPRECIATION	12,750	14,199	16,389	18,829	21,519
ADD: CAPITAL WIP	4,721	2,740	2,740	2,740	2,740
NET FIXED ASSETS	20,789	24,361	26,170	26,730	27,040
OTHER NON-CURRENT ASSETS	2,548	2,488	2,488	2,488	2,488
TOTAL ASSETS	82,673	93,167	91,716	103,789	116,023
CURRENT LIABILITIES	33,050	43,737	37,833	44,877	48,579
PROVISIONS	13,510	15,875	20,300	16,850	17,733
TOTAL CURRENT LIABILITIES	57,838	67,332	62,419	71,456	74,979
NON-CURRENT LIABILITIES	4,219	0	0	0	0
TOTAL LIABILITIES	62,058	67,332	62,419	71,456	74,979
PAID-UP CAPITAL	2,180	2,182	2,182	2,182	2,183
RESERVES & SURPLUS	18,436	23,654	27,116	30,151	38,859
SHAREHOLDERS' EQUITY	20,616	25,835	29,297	32,333	41,042
TOTAL EQUITY & LIABILITIES	82,673	93,167	91,716	103,789	116,023

PER-SHARE DATA

	FY2009	FY2010	FY2011E	FY2012E	FY2013E
MF EPS (INR)	11.4	9.6	9.6	11.7	14.2
GROWTH, %	44.4	-15.4	-0.6	21.6	22.3
BOOK NAV/SHARE (INR)	9.4	11.9	13.4	14.8	18.8
FDEPS (INR)	11.5	9.6	9.6	11.7	14.2
CEPS (INR)	12.3	10.5	10.5	12.8	15.5
CFPS (INR)	10.8	17.0	6.3	14.0	16.0
DPS (INR)	7.5	6.5	7.0	9.0	9.0

FINANCIAL STRUCTURE

	FY2009	FY2010	FY2011E	FY2012E	FY2013E
TOTAL DEBT/EQUITY (%)	20.5	0.0	0.0	0.0	0.0
NET DEBT (CASH)/EQUITY (%)	-65.7	-73.2	-41.7	-61.4	-71.5

PROFITABILITY, PRODUCTIVITY, LIQUIDITY AND VALUATION RATIOS

	FY2009	FY2010	FY2011E	FY2012E	FY2013E
RETURN ON ASSETS (%)	33.8	24.0	22.0	25.1	27.7
RETURN ON EQUITY (%)	869.5	90.5	75.9	82.5	84.8
RETURN ON INVESTED CAPITAL (%)	397.1	482.7	375.0	233.1	319.9
ROIC/COST OF CAPITAL (X)	35.0	45.5	35.4	22.0	30.2
ROIC - COST OF CAPITAL (%)	385.8	472.1	364.4	222.5	309.3
RETURN ON CAPITAL EMPLOYED (%)	463.7	83.2	73.9	79.7	83.1
COST OF CAPITAL (%)	11.3	10.6	10.6	10.6	10.6
ROCE - COST OF CAPITAL (%)	452.3	72.6	63.3	69.1	72.5
ASSET TURNOVER (X)	30.0	37.6	33.4	19.8	24.3
SALES/TOTAL ASSETS (X)	2.7	2.0	2.1	2.3	2.2
SALES/NET FA (X)	10.7	7.8	7.7	8.5	9.2
WORKING CAPITAL/SALES (X)	-0.1	-0.2	-0.1	-0.1	-0.1
FIXED CAPITAL/SALES (X)	0.1	0.2	0.2	0.2	0.2
RECEIVABLE DAYS	9.7	14.1	14.5	14.6	14.7
INVENTORY DAYS	45.6	45.4	44.6	42.8	41.1
PAYABLE DAYS	68.6	106.6	80.8	83.8	84.2
CURRENT RATIO (X)	1.0	1.0	0.8	0.9	1.0
QUICK RATIO (X)	0.6	0.6	0.5	0.5	0.6
INTEREST COVER (X)	120.5	388.8	N/A	N/A	N/A
DIVIDEND COVER (X)	1.5	1.5	1.4	1.3	1.6
PER (X)	23.9	28.3	28.5	23.4	19.2
PEG (X) - Y-O-Y GROWTH	0.5	-1.8	-44.0	1.1	0.9
PRICE/BOOK (X)	29.0	23.0	20.3	18.4	14.5
YIELD (%)	2.7	2.4	2.6	3.3	3.3
EV/NET SALES (X)	2.9	3.2	3.0	2.6	2.3
EV/EBITDA (X)	17.8	19.5	20.7	17.0	13.6
EV/EBIT (X)	17.8	19.5	20.7	17.0	13.6
EV/NOPLAT (X)	21.6	25.1	26.7	21.8	17.4
EV/CE	23.3	21.9	19.8	17.7	13.7
EV/IC (X)	85.7	121.2	100.1	50.9	55.6

Source: Company, MF Global India Research Estimates

RECOMMENDATION HISTORY

RECOMMENDATION	TARGET, RS	CMP, RS	DATE
BUY	320	273	15-FEBRUARY-2011
NEUTRAL	290	299	27-OCTOBER-2010
NEUTRAL	275	252	29-JULY-2010
BUY	275	237	1-FEBRUARY-2010
NEUTRAL	288	268	30-JULY 2009
UNDERPERFORMER	235	230	22-MAY 2009

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