

Country: India

12 March 2009

World Indices

	Close	Daily % Chg
BSE Sensex	8,160	(1.99)
NSE 50 Nifty	2,573	(1.79)
CNX Mid Cap	2,938	(1.50)
S&P 500	721	0.24
FTSE 100	3,694	(0.58)
Nasdaq	1,372	0.98
Hang Seng	11,993	0.52
Shanghai Comp	2,120	(0.88)

Turnover (\$ bn)

	BSE	% Chg	NSE	% Chg
Cash	0.4	(51.7)	1.3	(41.0)
F&O	-	-	7.3	(28.6)

Institutional Flows (\$ mn)

Date	Cash	NSE Derivatives (Net)	
		Index	Stocks
09/03/09	(0.3)	(33.8)	(0.1)
MTD	(475.6)	344.7	272.4
YTD	(1767.7)	NA	NA
MF			
06/03/09	25.0	NA	NA
MTD	(131.0)	NA	NA
YTD	(587.4)	NA	NA

Advances/Declines (%)

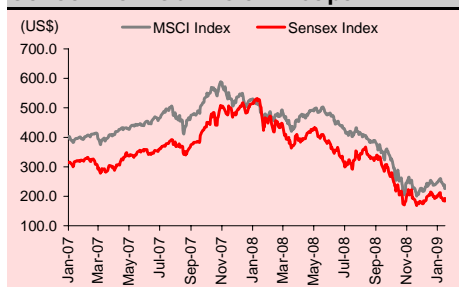
	Advances	Declines
BSE / NSE	32.3 / 25.5	64.1 / 70.5

Key Statistics

	Close	% Chg
US\$ / Rs	51.88	0.33*
Euro / US\$	1.26	0.29*
US\$/Yen	98.84	0.60*
10 yr G-Sec (%)	6.5	3.65
Call rate (%)	3.6	(11.11)
Brent-spot (US\$/bbl)	44.3	(0.56)
Gold (US\$)	922.0	(1.85)
Aluminium (LME, US\$/t)	1,339.0	1.29
Copper (LME, US\$/t)	3,636.0	(0.86)
Zinc (LME, US\$/t)	1,216.5	(1.74)

*+/- chg reflects \$ appreciation/depreciation

Sensex vs MSCI Asia Ex Japan



JM Financial Research is also available on -
Bloomberg - JMFR <GO>, Thomson Publisher, Reuters,
BlueMatrix Lite & Factset.

India Morning Brief

JM Financial Research

Recommendation Downgrade – Ranbaxy Labs: Unexpected turn of events

Company Update – Hindustan Unilever: Interaction session with management

News Tracker

Corporate News – Industry trends

Economic/Regulatory development

Commodity/Money Market News

International trends

Market Tracker

Key Stock Activity for Previous Day									
Top Sensex Movers				Top Turnover (NSE/BSE)					
Company	Price	% Chg Daily	% Chg YTD	NSE Company	Rs bn	%*	BSE Company	Rs bn	%*
RIL	1,153	(1.4)	(8.1)	ICICIBANK	5.1	7.9	SATYAM COMP	1.7	7.7
ICICI BANK	263	(2.3)	(43.3)	RELIANCE	3.8	5.9	ICICI BANK	1.3	6.0
L&T	562	(3.2)	(31.6)	SATYAMCO	3.7	5.7	RELIANCE	1.3	6.0
INFOSYS	1,202	(1.4)	4.7	HDFC	3.5	5.3	AKRUTI CITY	1.3	5.8
HDFC	1,256	2.9	(16.6)	SBI	2.8	4.2	SBI	1.0	4.5
SBI	895	(4.9)	(32.0)	RELCAPITAL	2.2	3.4	RELIANCE CAP	0.9	4.2
BHARTI	588	(2.4)	(18.4)	MCDOWELL	1.8	2.8	UNITD SPR	0.7	3.4
ITC	158	(3.8)	(7.7)	HINDUNILVR	1.7	2.7	EDUCOMP SOL	0.7	3.0
ONGC	666	(1.0)	(2.7)	AKRUTI	1.6	2.5	REL INFRA	0.6	2.5
TATA STEEL	152	(2.8)	(33.4)	RELINFRA	1.6	2.4	HOUSING DEV	0.5	2.5
RCOM	133	(3.7)	(46.0)	INFOSYSTC	1.5	2.3	ABAN OFFSHO	0.4	2.0
HDFC BANK	799	(0.4)	(21.2)	HDFCBANK	1.4	2.2	L&T	0.4	1.9
BHEL	1,301	(0.8)	(7.2)	BHARTIART	1.3	2.0	TATA STL	0.4	1.7
SUN PHARMA	978	(4.2)	(7.3)	EDUCOMP	1.3	1.9	ROLTA IND	0.3	1.5
HUL	216	(3.4)	(13.8)	L&T	1.1	1.7	DLF	0.3	1.5

Top Gainers**		Top Losers**		BSE Sectoral Indices		
Company	% Chg	Company	% Chg	Sector	% Chg	%YTD
M&M FINANSER	13.8	TATA TELESRV	(16.0)	AUTO	0.1	3.1
TULIP TELE	6.2	ROLTA IND	(12.0)	BANKEX	(1.8)	(14.2)
DIVI'S LAB	6.2	JUBILANT ORG	(7.9)	FMCG	(2.8)	(9.5)
JAI CORP LIM	4.3	BANK OF INDIA	(7.8)	CAP.GOODS	(1.9)	(24.7)
PIRAMA HEALT	4.3	HOUSING DEV	(6.9)	IT	(2.3)	(12.4)
NAG CONS COM	4.2	INDIAN BANK	(6.7)	METAL	(1.9)	(19.7)
JAIN IRRI SY	4.0	BHARAT PETROL	(6.6)	OIL & GAS	(1.6)	(8.5)
TECH MAH	3.7	ULTRATECH CM	(6.5)	POWER	(1.3)	(14.2)
FEDERAL BANK	3.6	INDIAN OVERS	(6.5)	REALTY	(3.2)	(46.2)
				HEALTHCARE	(1.0)	(15.8)
				SENSEX	(2.0)	(17.6)

Approximate 84% of Sensex weight

Note: **From BSE A Group, * % of total turnover, All data are as of previous day's closing

Bulk Deals											
BSE						NSE					
Buy	Price	Rs mn	Sell	Price	Rs mn	Buy	Price	Rs mn	Sell	Price	Rs mn
CHEMCEL	5	0.9	ALLIED COMP	0	2.4	EDSERV SOFTS	50	12.5	EDSERV SOFTS	46	7.4
EDSERV SOFT	49	3.7	DB(INTR) STBR	19	0.4	INDIABULLS R	11	2.6	INDIABULLS R	11	2.6
EPIC ENERGY	25	1.0	EDSERV SOFT	50	10.0	INDIAN OVERS	37	547.5	INDIAN OVERS	37	821.3
KOFF BR PICT	3	1.0	EPIC ENERGY	25	1.1	-	-	-	ROLTA INDIA	44	92.3
KZLEASING	62	1.1	FORBES & CO	330	34.7	-	-	-	-	-	-

Spurt in Turnover							
Company	\$ mn	Volume %	Daily Price Chg %	Company	\$ mn	Volume %	Daily Price Chg %
GODFRYPHLP	0.01	4486	(3.5)	RAMCOSYS	0.01	2103	(1.0)
HTMEDIA	0.37	4467	(0.5)	RSWM	0.01	2024	(1.0)
CUMMINSIND	1.57	3569	(1.4)	JAGRAN	0.04	1939	(1.0)
VTL	0.03	3265	(4.3)	CLNINDIA	0.60	1581	3.6
RALLIS	0.12	2107	0.5	DABUR	2.13	1436	0.7

Corporate News – Industry trends

- Despite slower demand, subscriptions for **GSM mobile** services grew by 9.2 mn in February to touch 277.16 mn, according to COAI (BS)
- **Ashok Leyland** has increased the number of working days at its manufacturing units to five from three (BS)
- **Reliance Power Transmission (RPTL)** has signed power transmission agreement with eight entities from the western region for two inter-state power transmission projects (BS)
- **Wipro Technologies'** subsidiary Info crossing has entered into a five-year contract to provide IT and infrastructure services delivery for CSG Systems International, a provider of customer interaction management and billing solutions (BS)
- **Jyothy Laboratories** announced launching its new venture, named Fabric Spa, a laundry business, set up with an initial cost of Rs400 mn (Mint)
- **Aditya Birla Nuvo** said it has acquired 76% stake in the retail broking company Apollo Sindhoori Capital Investment (Mint)
- **PVR Cinemas**, has lined up an investment corpus of over Rs2.4 bn for film production, exhibition and entertainment ventures like food courts and bowling alleys in the next fiscal (2009-10) (BS)
- **Tata Consultancy Services (TCS)** has bagged a multiyear contract from Infineon Technologies AG (IFX), a semiconductor manufacturer (BS)
- **Cairn Energy**, said it planned to raise fresh capital totaling about US\$165 mn (BS)
- **L&T Arun Excello** announced that it had signed a MoU with BSNL to set up telecom infrastructure at the Estancia Integrated Township near here (BL)

Economic/Regulatory development

- **TRAI slashes** fee for telecom companies; cell bills to dip by 20% (ET)

Commodity/Money Market News

- **Coffee exports** from India fell by 14.5% in Jan-Feb 2009, as compared to the year-ago period. Total exports were 33,120 tonnes from Jan up to March 5, 2009 as compared with 38,766 tonnes in the year-ago period (BS)

International trends

- **The UK government** today approved a grant of £27 mn to Tata Group-owned JLR for producing a new eco-friendly car based on the Land Rover's LRX Concept that was first showcased at the 2008

Country: India

Sector: Pharmaceuticals

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Key Data

Market cap (bn)	Rs61.4/US\$1.2
Shares in issue (mn)	455
Diluted share (mn)	478
3-mon avg daily val (mn)	Rs 390.3/ US\$ 7.5
52-week range	Rs614/134
BSE sensx (09/03/09)	8,160
Nifty (09/03/09)	2,573
Rs/US\$	51.9

Shareholding Pattern (%)

	4Q FY08	4Q FY07
Promoters	63.90	37.42
FIIIs	4.16	34.77
MFs/FIs/Banks	11.58	8.70
Others	20.36	19.11

Price Performance (%)

	1M	3M	12M
Absolute	(36.5)	(35.7)	(70.9)
Relative*	(21.1)	(20.2)	(22.2)

* To the BSE Sensex

Daily Performance



(As of 9th March 2009)

12 March 2009

Recommendation Downgrade

Ranbaxy Labs

Bloomberg: RBXY IB

HOLD

Price: Rs135

Target Price (Dec 09): Rs155

Unexpected turn of events

- AIP was unexpected:** We had believed that Ranbaxy will be able to resolve the USFDA issues in CY09. We were encouraged by management comments that other regulatory authorities had cleared their facility. However, on 25th Feb, FDA issued a letter determining that Ranbaxy had submitted untrue statements of material fact from Paonta Sahib (PS). This event has been unexpected, as management had denied any wrongdoing and we had believed that they would be able to resolve these issues. FDA's letter brings to light several examples which FDA had highlighted even previously in the 2006 and 2008 warning letters. FDA has now found that this pattern raises significant question regarding reliability of data and has invoked Applicant Integrity Policy (AIP).
- FDA will conduct validity assessment.** FDA will conduct full investigation to identify all instances of wrongful acts and determine the extent to which such acts may have affected approved/pending applications. FDA will defer review until such validity assessment is complete. If it finds that the data in the application is unreliable, it will not approve or withdraw application regardless of whether the applicant replaces the data with new information. New information should be in new application and should identify parts of original application found to be false. Also, accuracy should be certified by president, CEO or person most responsible for operations. FDA may also seek retesting of products. AIP will be revoked only after a satisfactory reinspection after applicant implements a credible corrective plan covering personnel, raw material, intermediates, test records, production/process records, equipment testing, biostudy, etc.
- Impact – further delays and reduced chances of exclusivity:** We reduce Ranbaxy's para-IVs value by 50% to adjust the risk of loss of exclusivity. We reduce US revenue forecasts to reflect lower shares even in products not directly impacted by the ban. We cut our Dec-09 target price to Rs155, based on 10x revised CY10E EPS of Rs10.7 (down 24%) and additional Rs46 (previous Rs110) for para-IVs. We downgrade to HOLD.

Exhibit 1: Financial summary

(Rs mn)

Y/E December	CY06	CY07	CY08	CY09E	CY10E
Net sales	59,762	68,426	68,415	66,511	81,432
Sales growth (%)	16.0	14.5	(0.0)	(2.8)	22.4
EBITDA	7,915	8,979	5,491	5,466	13,280
EBITDA (%)	13.2	13.0	7.9	8.1	16.1
Adjusted net profit	4,990	7,720	1,896	2,507	5,158
EPS (Rs)	12.1	19.5	4.7	5.2	10.8
EPS growth (%)	133.7	61.0	(76.1)	12.5	105.8
ROCE (%)	10.3	12.8	3.7	3.0	4.1
ROE (%)	19.8	28.7	5.4	5.8	9.2
PE (x)	10.9	7.0	29.0	25.8	12.5
Price/Book value (x)	2.1	1.9	1.3	1.5	0.9
EV/EBITDA (x)	11.0	9.6	12.3	13.3	4.5

Source: Company data, JM Financial. Note: Valuations as of 9th March 2009

Para-IV products revisited

- **Valacyclovir:** This product features in banned products list, as the API is manufactured at Dewas and formulation at Paonta. Ranbaxy is scheduled to launch this by end-2009 under its agreement with Glaxo. It had challenged all the patents and would enjoy 6-mths exclusivity upon launch. This product was filed before the new act and Ranbaxy has already received final approval. Management has indicated that it will launch this product. We have built in \$140m in 2010 from this product. We think it can launch this product only if it has already done site-transfer using third party bulk. The only advantage is that like sumatriptan, it will enjoy exclusivity even if there is a delay, as it challenged other patents expiring in 2016.
- **Tamsulosin:** This product does not feature in the list, but we believe will be impacted. We remove upsides from this product, as the only patent that Ranbaxy challenged expires in Oct-09 (without pediatric exclusivity). We believe Ranbaxy will not be able to resolve these issues by mid-10. Hence, it will lose exclusivity, even though it has the right to launch its generic 2 months before expiration.
- **Valsartan:** We remove the Rs10/share upside we had factored in previously, as we believe Ranbaxy is no longer eligible for exclusivity. This product was filed after the new act and we believe Ranbaxy did not get tentative approval within 30-months from submission. Hence, we think it has forfeited its exclusivity. We note that it has initially challenged patents expiring in 2017 and subsequently challenged compound patent expiring in 2012. It was sued on compound patent, but dismissed the case, as it agreed to launch post-compound expiration.
- **Esomeprazole:** We continue to believe Ranbaxy will be able to supply this product to Astra, as the bulk is being manufactured at Tonsa. It is likely to supply formulation from Ohm. We halve its 6-month exclusivity potential, as we fear there is a risk of Ranbaxy losing this exclusivity if FDA finds in validity assessment that the data is unreliable.
- **Valganciclovir:** Ranbaxy is the first to challenge the only listed patent. We believe the case will get resolved in the next 18-24 months – triggering Ranbaxy's exclusivity. However, we remove Rs3/share upside as we assume Ranbaxy will not be able to resolve FDA issues in this time frame. We continue to believe Ranbaxy has a good case on non-infringement and the company retains exclusivity as it received tentative approval within 30-months from submission.

For all other opportunities – atorvastatin, atorvastatin+amlodipine, donepezil, pioglitazone, we halve the value, as we believe there is a risk of Ranbaxy losing exclusivity if FDA finds that the data was unreliable and requires Ranbaxy to withdraw the application. The recent approvals ramipril, quinapril in US and terbinafine in Australia are marginally positive and suggest that loss of exclusivity may be the worst case outcome, but we do not see investors willing to pay more value for these opportunities given the turn of events. We believe FDA may decide approvals on case by case basis.

We reduce our region-wise forecasts as shown below to reflect forex movements and the reduced market shares for Ranbaxy in the US even on products not directly impacted by the ban.

Exhibit 2: Revising estimates down (Rs mn, except dollar sales)

Y/E December	2009			2010		
	Old Est.	New Est.	%chg	Old Est.	New Est.	%chg
India	313	313	0%	342	342	0%
India - consumer	45	45	1%	50	50	0%
US	150	150	0%	220	170	-23%
Europe	221	232	5%	243	255	5%
CIS	111	111	0%	133	133	0%
Africa	129	129	0%	146	146	0%
Asia	75	75	0%	88	88	0%
Asia-Consumer	38	38	-1%	47	47	0%
Brazil	77	73	-5%	90	86	-4%
Formulation	1,159	1,166	1%	1,359	1,317	-3%
Bulk	120	120	0%	121	121	0%
Terapia	107	91	-15%	121	103	-15%
Total (\$ mn)	1,386	1,377	-1%	1,601	1,541	-4%
Net Sales (Rs mn)	66,926	66,511	-1%	84,326	81,432	-3%
EBITDA	5,817	5,466	-6%	15,352	13,280	-13%
Margin	8.70%	8.22%		18.20%	16.31%	
Net Profit	2,814	2,507	-11%	11,790	9,921	-16%
Adj. Net Profit	2,814	2,507	-11%	6,816	5,158	-24%
Margin	4.20%	3.77%		8.10%	6.33%	
EPS	5.9	5.2	-11%	14.2	10.8	-24%

Source: Company, JM Financial

Exhibit 3 : Para-IV value not built in model (but in target price)

	\$m	Rs/share	Present Value	Launch
Atrovastatin	646	61	46	2011
Caduet	48	5	3	2011
Esomeprazole	727	68	34	2014
Donepezil	121	11	9	2011
Total			93	
Adjusted Value			46	

Source: Company, JM Financial

Exhibit 4 : Market Share change in key products

Product	Market share (Feb 08)	Market share (Feb 09)
SOTRET	53%	33%
AMOX TR/POT CLAVUL	10%	5%
AMOXICILLIN	19%	9%
CEFUROXIME AXETIL	29%	19%
FENOFIBRATE	41%	11%
CLINDAMYCIN HCL	63%	23%
MINOCYCLINE HCL	36%	23%
CEFPODOXIME PROXET	100%	53%
CEPHALEXIN	16%	5%
CLARITHROMYCIN	37%	10%
LORAZEPAM	31%	9%
PRAVASTATIN SOD	3%	2%
CEFADROXIL	28%	14%
CIPROFLOXACIN HCL	27%	4%
SIMVASTATIN	7%	1%

Source: Industry, JM Financial, All except clindamycin, minocycline and lorazepam are banned

Financial Tables

Profit & loss statement						(Rs mn)
Y/E December	CY06	CY07	CY08	CY09E	CY10E	
Net sales	59,762	68,426	68,415	66,511	81,432	
Growth (%)	16.0	14.5	(0.0)	(2.8)	22.4	
Other operational income	325	494	937	937	937	
Raw Material/FG	23,254	26,529	28,259	25,201	28,799	
Staff cost	7,955	8,918	9,810	10,301	11,537	
R&D	4,280	4,300	4,412	4,500	4,725	
SG&A	16,683	20,194	21,380	21,980	24,028	
EBITDA	7,915	8,979	5,491	5,466	13,280	
EBITDA (%)	13.2	13.0	7.9	8.1	16.1	
Growth (%)	183.8	13.4	(38.8)	(0.5)	143.0	
Other non-operational income	175	230	280	250	300	
Depreciation & amortisation	1,843	2,183	2,656	2,951	3,279	
EBIT	6,247	7,026	3,115	2,765	10,301	
Interest (income)/exp (net)	(614)	(1,193)	(1,390)	100	2,100	
Pre tax profit	6,861	8,219	4,505	2,665	8,201	
Taxes	1,357	2,119	(5,605)	358	2,480	
Extra (income)/exp (net)	412	3,984	(17,155)	0	0	
Minority interest	50	126	0	0	0	
Net profit	4,990	7,720	(9,180)	2,507	9,921	
Adjusted net profit	4,990	7,720	1,896	2,507	5,158	
Margin (%)	8.3	11.2	2.7	3.7	6.3	
Diluted share capital (mn)	403	403	407	479	479	
EPS (Rs)	12.1	19.5	4.7	5.2	10.8	
Growth (%)	133.7	61.0	(76.1)	12.5	105.8	

Source: Company, JM Financial

Cash flow statement						(Rs mn)
Y/E December	CY06	CY07	CY08	CY09E	CY10E	
Net profit	4,990	7,720	(9,180)	2,507	9,921	
Depreciation/amortization	1,843	2,183	2,656	2,951	3,279	
(Inc)/dec in working capital	(6,391)	980	2,593	1,480	(1,871)	
Others	0	0	0	0	0	
Net cash from operations	442	10,884	(3,931)	6,938	11,329	
(Inc)/dec in investments	1,675	523	(2,599)	(39)	(413)	
Capex	(18,190)	(5,268)	(2,426)	(2,500)	(3,500)	
Others	0	0	0	0	0	
Cash flow from inv.	(16,516)	(4,745)	(5,025)	(2,539)	(3,913)	
Inc/(dec) in capital	6	(1,838)	24,046	(105)	15,566	
Dividends paid + div tax	(3,613)	(3,711)	(193)	(752)	(1,547)	
Inc/dec in loans	19,514	1,860	(3,416)	396	(19,205)	
Others	688	(1,022)	(2,232)	0	0	
Financial cash flow	16,594	(4,711)	18,206	(461)	(5,186)	
Net inc/dec in cash	521	1,428	9,250	3,938	2,231	
Opening cash balance	2,430	2,951	4,379	13,629	17,567	
Closing cash balance	2,951	4,379	13,629	17,567	19,797	

Source: Company, JM Financial

Balance sheet						(Rs mn)
Y/E December	CY06	CY07	CY08	CY09E	CY10E	
Share capital	1,863	1,865	2,221	2,221	2,221	
Reserves & surplus	23,986	26,157	40,474	42,124	66,064	
Net worth	25,850	28,022	42,695	44,345	68,284	
Total loans	39,556	41,416	38,000	38,396	19,191	
Sources of funds	65,406	69,438	80,695	82,741	87,475	
Intangible assets	22,198	22,198	22,198	22,198	22,198	
Fixed assets	28,976	33,492	36,992	39,992	43,492	
Less: Depreciation/amortisation	12,221	13,645	16,301	19,252	22,531	
Net block	38,953	42,045	42,889	42,938	43,159	
CWIP	3,581	3,574	2,500	2,000	2,000	
Investments	362	2,403	3,800	3,800	3,800	
Deferred tax assets/(liability)	(655)	(1,434)	(949)	(949)	(949)	
Current assets	41,104	44,760	52,850	55,897	62,154	
Inventories	16,116	16,409	14,009	13,308	14,538	
Sundry debtors	15,716	14,931	15,599	14,819	16,597	
Cash & bank balance	2,951	4,379	13,629	17,567	19,797	
Other current assets	6,321	9,042	9,613	10,203	11,221	
Current liabilities & provisions	17,597	21,327	20,161	20,712	22,456	
Current liabilities	8,128	8,615	9,477	9,477	10,614	
Provisions and others	9,469	12,712	10,684	11,235	11,841	
Net current assets	23,508	23,432	32,688	35,185	39,698	
Others (net)	(343)	(582)	(233)	(233)	(233)	
Application of funds	65,406	69,438	80,695	82,741	87,475	

Source: Company, JM Financial

Key ratios					
Y/E December	CY06	CY07	CY08	CY09E	CY10E
ROCE (%)	10.3	12.8	3.7	3.0	4.1
ROE (%)	19.8	28.7	5.4	5.8	9.2
Debt-equity ratio (x)	1.4	1.3	0.6	0.5	(0.0)
Valuation ratios (x)					
PER	17.0	11.0	45.4	40.3	19.6
PBV	3.3	3.0	2.0	2.3	1.5
EV/EBITDA	14.8	12.9	17.2	19.0	7.1
EV/Sales	2.0	1.8	1.6	1.8	1.2
Turnover ratios (no.)					
Debtor days	83	82	81	83	70
Inventory days	91	87	81	75	62
Creditor days	124	115	117	137	127

Source: Company, JM Financial

Country: India

Sector: Consumer Goods

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Key Data

Market cap (Rs bn)	Rs488.1 / US\$9.5
Shares in issue (mn)	2179
Diluted shares (mn)	2179
3-mon avg daily val (mn)	Rs719.9 / US\$13.9
52-week range	Rs271 / 185
BSE Sensex (06/03/09)	8326
Nifty (06/03/09)	2620
Rs/US\$	51.6

Shareholding Pattern (%)

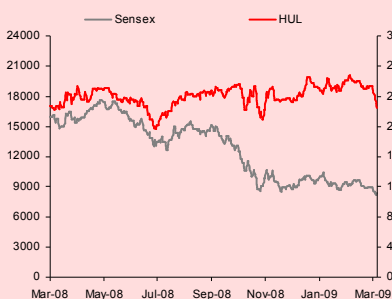
	Dec 2007	Dec 2008
Promoters	52.1	52.1
FIIIs	14.3	14.9
MFs/FIs/Banks	15.4	15.1
Others	18.2	18.0

Price Performance (%)

	1M	3M	12M
Absolute	(14.2)	(4.6)	(1.2)
Relative*	(3.7)	2.5	46.7

* To the BSE Sensex

Daily Performance



(As of 6 March 2009)

9 March 2009

Company Update

Hindustan Unilever

Bloomberg: HUVR IB

Hold

Price: Rs224

Target Price (Jun 09): Rs260

Interaction session with management

Following are the key highlights from our recent interaction session with the management of Hindustan Unilever Limited (HUL). Our analysis and views follow on page 2 of this note.

- Consumer spending remains intact:** The company has not seen any impact of slowdown in its categories. Both urban and rural regions are continuing to grow well. But detergents market is still facing volume pressures due to the impact of high input cost led price increases. Personal care continues to witness volume growth even in January 2009; however, the category may not require much of a price adjustment as it didn't have much of a price increase.
- Input costs are cooling off:** Input costs have shown definitive signs of cooling off, which coupled with excise cuts benefits have already resulted in price adjustments in some lower and mid-segment brands and packs. However, rupee depreciation would offset some element of the input costs reduction. On margin front, a combination of pricing, costs focus, buying efficiencies and mix improvement would help improve margin profile. Management re-iterated that they continue to maintain the consistent practice of not giving any guidance and did not give any specific statement with respect to margins.
- Higher media fragmentation could offset some benefits from media deflation:** While the level of media inflation has come down, higher fragmentation of media could mean higher spending to get into more channels and increase the share of voice and level of brand awareness to improve consumer franchise for the company's brands. Ad spends as a percentage of sales would likely be maintained at the same level.
- Categories and market shares: (a) Soaps:** Market share loss witnessed mostly at bottom-end brands; there had also been some share loss in couple of regional pockets. While top-end brands and Lux, Lifebuoy continue to do well, HUL is also focusing on value for money brands. Management sounded confident of market share improvement once its portfolio advantage plays out and the impact of pricing adjustments, schemes and promotions comes through to the market place. **(b) Oral care:** Toothpaste category is continuing to experience value upgradation as well as market expansion (consumers uptrading from toothpowder). HUL's price-pointed Rs6 pack is aimed at capturing new entrants into the category and at 'bottom of the pyramid' consumers. **(c) Shampoo:** Uptrading phenomenon being witnessed; mid-range Sunsilk and high-end Dove shampoo doing well while Clinic All Clear needs some more working upon. **(d) Skin care:** Current consumption level is extremely low. Better formulation and brand differentiation will help category expansion and increase brand loyalty in this segment.
- Management re-iterated that market share and margins are "not an either-or game". Strategy will be to play the portfolio advantage and participate in market expansion as well as capture premiumisation trend.

- **Downtrading:** Management indicated that high inflation level is one of the biggest impediments to growth. In a stable input cost environment, there would be no need to downtrade; and if products become slightly cheaper, more consumers would enter the category and drive consumption. In urban context, FMCG are in anyway mostly non-discretionary expenses.

Our views and forecasts

- Our estimates suggest that *ceteris parabus*, the twin impact of a huge cool-off in global commodity prices coupled with benefits flowing from the reduction in the rate of excise duty does offer scope for high gross margin expansion. However, our sense is that there could be multiple factors that could interplay among themselves to eat into a seemingly large incremental margin-pool. Some of these could be in the form of price reductions, grammage adjustments, formulation improvement, additional trade and consumer schemes and promotions, brand spends, exchange rate impact etc. Unilever CEO Paul Polman had on its 4QCY08 investor conference call held on 5 February 2009 briefly dealt with this aspect:

Exhibit 1: Quote from Paul Polman, Unilever CEO

"Yeah, I think that whole thing on commodity cost is not very thoroughly investigated by the outside world when it's being written about. Let's just look at this for a second. The businesses half of it is in developed markets, half of it is in developing markets. In the developing markets again a lot of the materials that you use are being imported. We see currency swings in these markets that are quite substantial. You can do your own calculations. But if a country needs to import materials and the currency devalues by 20% it has to be reflected somewhere. So, there are places in the world, without going into the details of the countries, that you will actually see price increases. The second thing is, it is true that prices are decreasing on some materials but nowhere near the levels where they were two years ago. So, we'll talk about decreases with big headlines in the paper but peel the onion for a second and see where it is and I can give you some examples of that. The third thing is that we see in some of the materials, agriculturally based materials, fruits and vegetables, things that we also need in our business, we actually don't see prices coming down. A good example of that is, if you want one example, is tea. The tea prices are holding up quite up nicely. And you don't get that benefit. So it is a mixed picture. Broadly on the portfolio there is a little bit of easing of input costs no doubt about that, but not as big as some people are trying to suggest. And that is also why you don't see prices coming down as much."

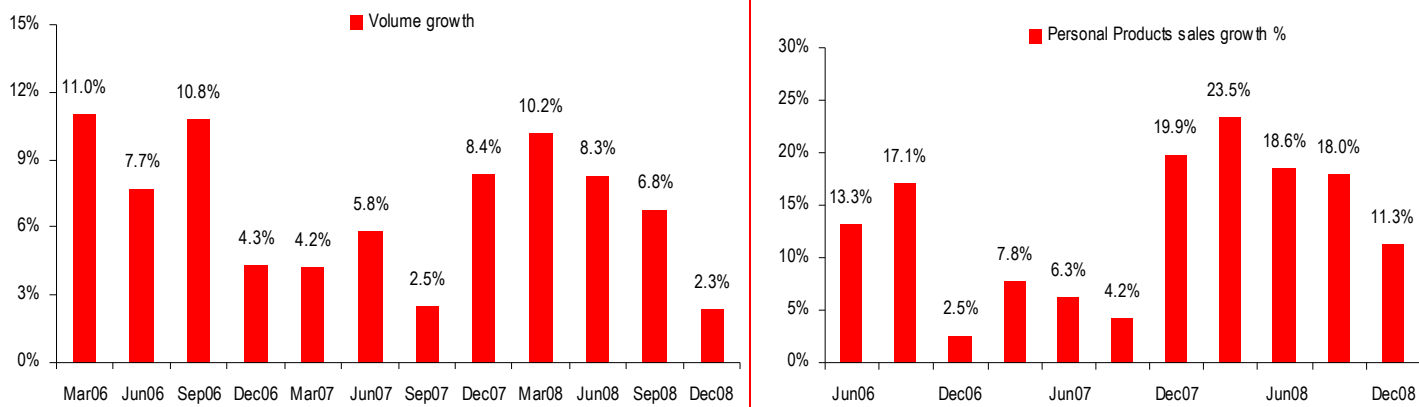
Source: Bloomberg transcript, JM Financial

- We are in consonance with management's commentary on consumer spending remaining intact; our analysis of tertiary sales trend gives us a reasonable re-assurance in this regard (refer our note 'Beyond 3QFY09: Consumer offtakes analysis - Volume data re-assuring' dated 4 March '09).
- On downtrading, we believe that the process of reducing the effective prices of products hereonwards by companies to pass on costs and duty cuts benefits could help stretch the affordability band for consumers for some more time and postpone downtrading to some extent.
- Our calculations indicate that the cumulative impact of excise rate reduction from 14% to 8% leads to a c.38% savings in excise duty payable and a resultant c.5% improvement in net realisation to companies. But since some of HUL's units are located in tax and duty-free zones, we estimate this improvement to be in the range of 2-3% for HUL, on a constant price basis. While we are expecting further price cuts, we believe that the net excise savings-led realisation increase, coupled with the full-period impact of current year's price hikes still offer scope for some realisation-led growth even in FY10E.

- **We do not see any need to tinker with our estimates:**
 - **FY09E:** We project c.19% sales growth on a full year FY09E basis (6% volume growth, 13% price-led) and profit growth of c.14% (adjusted for exceptionals).
 - **FY10E:** We forecast deceleration in sales growth to 10.3% in FY10E. We expect realisation-led growth (which we estimate to constitute >65% of FY09E incremental sales) to slow from average of c.13% in FY09E to c.4% in FY10E. We forecast c.6% volume growth in FY10E and expect c.160 bps EBITDA margin expansion (largely due to higher gross margin in the wake of easing cost pressures) to lead to a 16.8% EPS growth (pre-exceptionals) in FY10E.

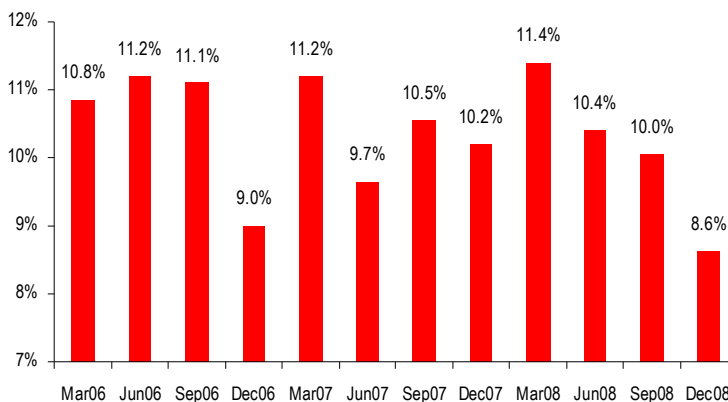
- **Maintain our 'Hold' rating and our target price of Rs260:**
 - We continue to value HUL on the basis of our target PEG of c.1.5 which gives us a forward PE multiple of c.23x and a Jun-09 target price of Rs260. At current price of Rs224, the stock is trading at 20x our FY2010 EPS estimate of Rs11.23. **We maintain our 'Hold' rating but recommend investors to look at any further decline in share price as an opportunity for buying.**
 - Despite contraction in the price-multiples of the overall market, we believe higher demand visibility and stable earning potential of the consumer goods sector coupled with HUL's superior management profile will enable it to retain its premium over the market.

Exhibit 2: Quarterly overall volume growth trends (%) 'Personal products' revenue growth trends (%)



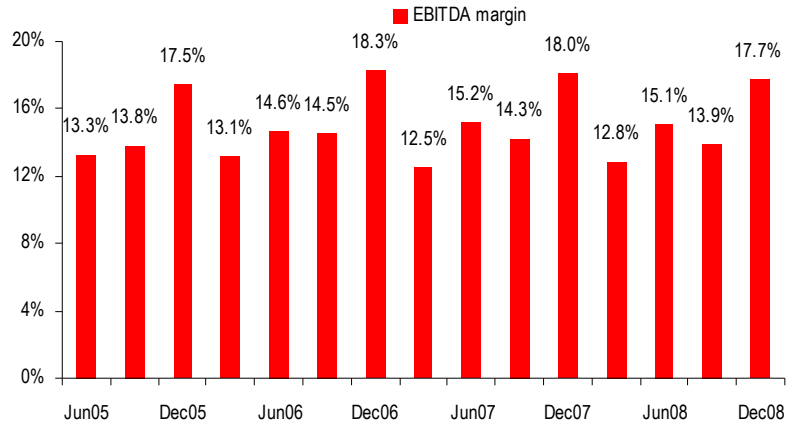
Source: Company, JM Financial

Exhibit 3: Trends in ad spends (as % of net sales) (%)



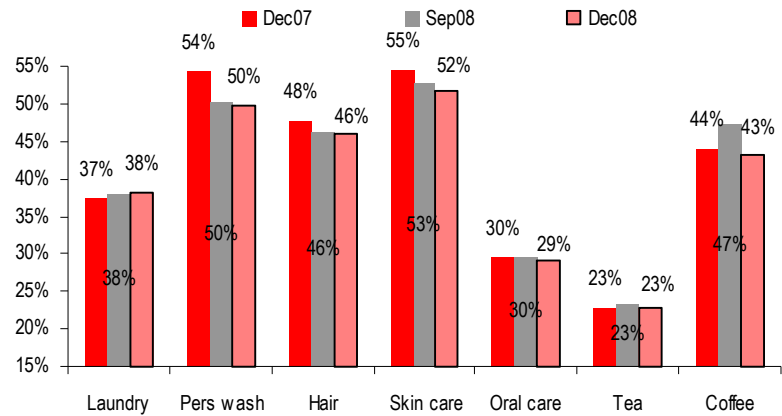
Source: Company, JM Financial

Exhibit 4: Trends in overall EBITDA margin (%)



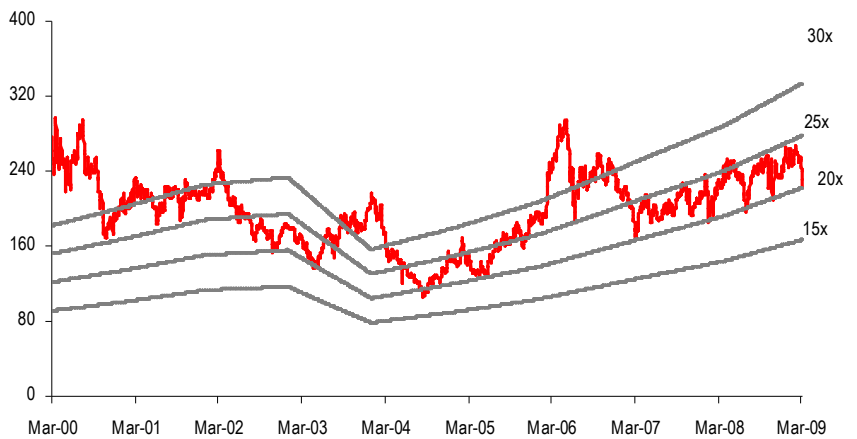
Source: Company, JM Financial

Exhibit 5: Market shares trends (%)



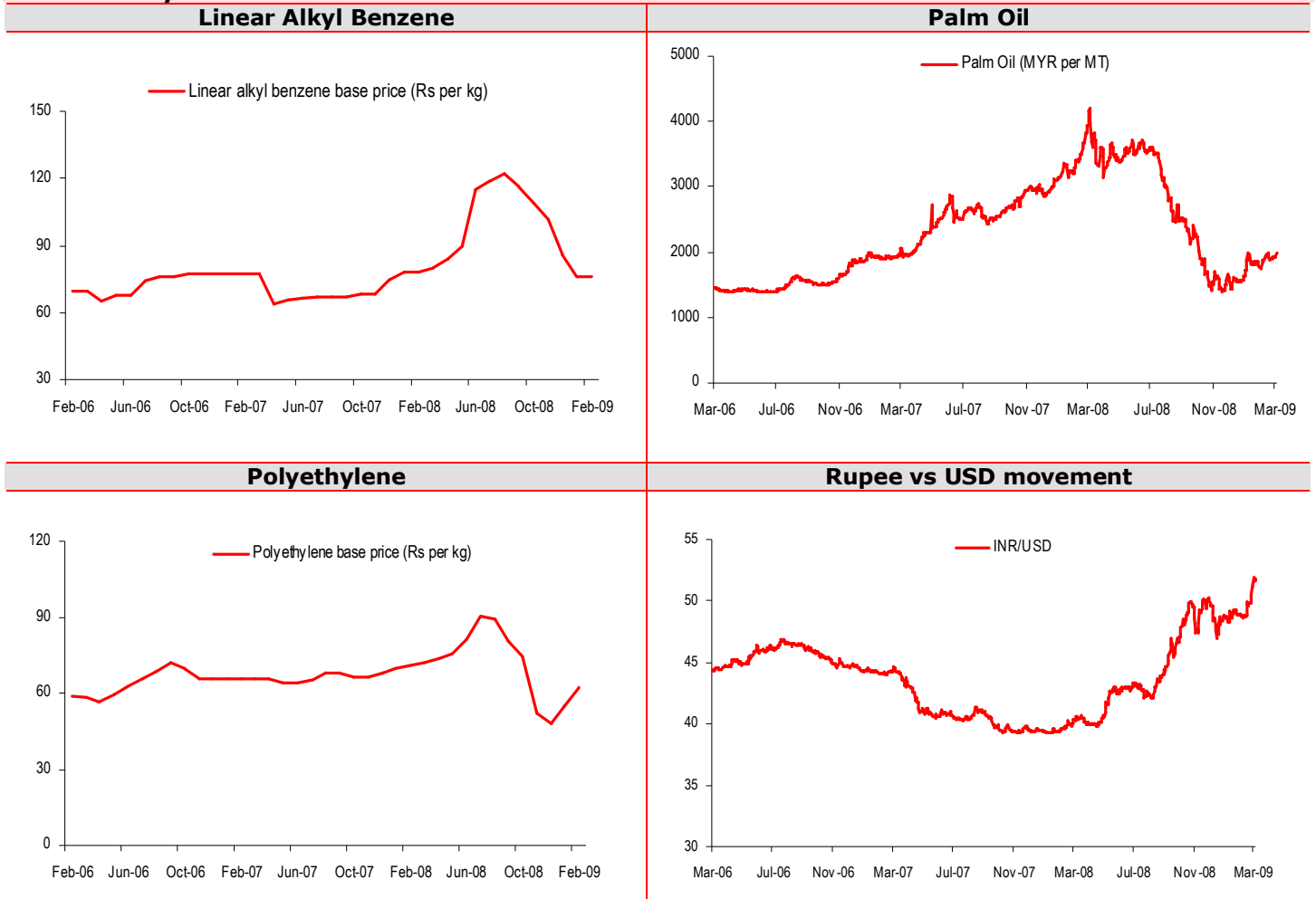
Source: Company, JM Financial

Exhibit 6: One-year forward PE-band



Source: Bloomberg, JM Financial

Exhibit 7: Key costs trends



Source: Bloomberg, Industry and RIL data, JM Financial

Exhibit 8: Recent price decreases / grammage increases

Brand / Pack	Earlier	Revised	% price decrease / grammage increase	With effect from
Soaps				
Lifebuoy - 90 gms	Rs13	Rs12	7.7%	Jan 09
Lifebuoy - 115 gms	Rs15	Rs14	6.7%	Jan 09
Lux - Rs10	60gms	75gms	25.0%	Jan 09
Detergents				
Wheel Active Powder - 2 kg	Rs75	Rs67	10.7%	Jan 09
Wheel Active Powder - Rs10	250gms	275gms	10.0%	Jan 09
Sunlight - 3 kg	Rs220	Rs210	4.5%	Jan 09

Source: Company, Market data, JM Financial

Financial Tables

Profit & loss statement					(Rs mn)
Year ended Dec / March	CY07	FY08 *	FY09E	FY10E	FY11E
Net sales	139,134	145,218	173,120	190,892	210,993
Growth (%)	12.1		19.2	10.3	10.5
EBITDA	21,348	22,243	24,931	30,525	34,590
EBITDA (%)	15.3	15.3	14.4	16.0	16.4
Growth (%)	14.7		12.1	22.4	13.3
Depreciation	1,419	1,454	1,489	1,689	1,839
EBIT	19,929	20,789	23,443	28,836	32,751
Financial Inc / (Exp) (net)	1,961	1,974	1,975	2,228	2,258
Pre tax profit	21,890	22,763	25,417	31,064	35,009
Taxes	4,213	4,397	4,427	6,551	7,383
Exceptional Inc / (exp)	1,512	873	626	0	0
Sh of Profit/(Loss) of Asso.	0	0	5	5	5
Minority interest	40	40	45	51	57
Net profit	19,149	19,199	21,577	24,467	27,573
Adjusted net profit	17,637	18,327	20,951	24,467	27,573
Margin (%)	12.7	12.6	12.1	12.8	13.1
Diluted share capital (mn)	2,177	2,178	2,178	2,178	2,178
EPS (Rs)	8.1	8.4	9.6	11.2	12.7
Growth (%)	17.6		14.3	16.8	12.7

Source: Company, JM Financial

Balance sheet					(Rs mn)
Year ended Dec / March	CY07	FY08 *	FY09E	FY10E	FY11E
Share capital	2,177	2,178	2,178	2,178	2,178
Reserves & surplus	12,904	16,752	20,658	25,086	30,077
Networth	15,082	18,930	22,836	27,264	32,255
Total loans	1,021	1,021	1,073	1,126	1,183
Minority Interest	55	55	100	151	208
Sources of funds	16,158	20,007	24,008	28,541	33,646
Intangible assets	0	0	0	0	0
Fixed assets	27,273	27,273	32,273	35,273	38,273
Less: Dep / Amort.	11,684	12,056	13,545	15,233	17,072
Net block	15,589	15,217	18,728	20,039	21,201
CWIP	1,888	1,888	1,900	1,950	2,000
Investments	14,292	14,972	17,149	20,470	24,450
Deferred tax assets/(liability)	2,144	2,144	2,604	3,253	3,985
Current assets	34,196	39,696	46,503	51,119	57,343
Inventories	20,038	20,914	26,087	28,765	31,793
Sundry debtors	4,649	4,853	6,090	6,491	7,216
Cash & bank balance	2,624	6,911	6,957	8,126	10,209
Other current assets	185	185	195	204	214
Loans & advances	6,699	6,833	7,175	7,534	7,910
Current Liabilities & Prov	51,950	53,909	62,876	68,290	75,333
Current liabilities	38,977	40,714	47,447	51,415	56,629
Provisions and others	12,974	13,196	15,430	16,875	18,704
Net current assets	(17,755)	(14,213)	(16,373)	(17,171)	(17,990)
Others (net)	0	0	0	0	0
Application of funds	16,158	20,007	24,008	28,541	33,646

Source: Company, JM Financial

Cash flow statement					(Rs mn)
Year ended Dec / March	CY07	FY09E	FY10E	FY11E	
PBIT	22,155	25,533	31,185	35,136	
Add: Depn/Amortizatin	1,419	1,489	1,689	1,839	
Less: Other Income	(2,226)	(2,090)	(2,349)	(2,385)	
Less: Taxes	(4,597)	(4,385)	(6,432)	(7,320)	
(Inc)/dec in working capital	1,938	684	187	1,020	
Others	(936)	586	(46)	(52)	
Net cash from operations (a)	17,753	21,816	24,234	28,237	
(Inc)/dec in investments	9,231	(2,177)	(3,321)	(3,980)	
Capex	(1,025)	(5,012)	(3,050)	(3,050)	
Other Income	2,226	2,090	2,349	2,385	
Others	(887)	0	0	0	
Cash flow from inv. (b)	9,545	(5,099)	(4,022)	(4,645)	
Inc/(dec) in capital	(3,014)	0	0	0	
Inc/dec in loans	97	51	54	56	
Inc / (Dec) in Minority Interest	8	45	51	57	
Dividends (incl tax)	(23,418)	(16,652)	(19,027)	(21,495)	
Interest	(265)	(115)	(121)	(127)	
Others	(2,690)	0	0	0	
Financial cash flow (c)	(29,283)	(16,671)	(19,043)	(21,508)	
Net inc/dec in cash (a+b+c)	(1,984)	46	1,168	2,084	
Opening cash balance	4,609	6,911	6,957	8,126	
Closing cash balance	2,624	6,957	8,126	10,209	

Source: Company, JM Financial

Key Ratios				
Year ended Dec / March	CY07	FY09E	FY10E	FY11E
ROCE (%)	102.2	127.3	118.7	113.0
ROE (%)	85.4	100.3	97.7	92.7
Debt-equity ratio (x)	0.07	0.05	0.04	0.04
Valuation ratios (x)				
PER	27.6	23.3	19.9	17.7
PBV	32.3	21.4	17.9	15.1
EV/EBITDA	22.1	18.7	15.1	13.2
EV/Net Sales	3.4	2.7	2.4	2.2
Turnover ratios (no.)				
Debtor days	12.2	12.8	12.4	12.5
Inventory days	52.6	55.0	55.0	55.0
Creditor days	311.0	301.1	296.4	297.3

Source: Company, JM Financial

Note: * FY08 financials are Memorandum April 2007 to March 2008- on account of change in accounting year from Jan-Dec to Apr-Mar

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