

April 8, 2010

Rating	Sell
Price	Rs225
Target Price	Rs218
Implied Upside	(-) 3.1%
Sensex	17,970

(Prices as on April 7, 2010)

**Trading Data**

Market Cap. (Rs bn)	490.6
Shares o/s (m)	2,179.9
Free Float	47.98%
3M Avg. Daily Vol ('000)	4,057.9
3M Avg. Daily Value (Rs m)	978.0

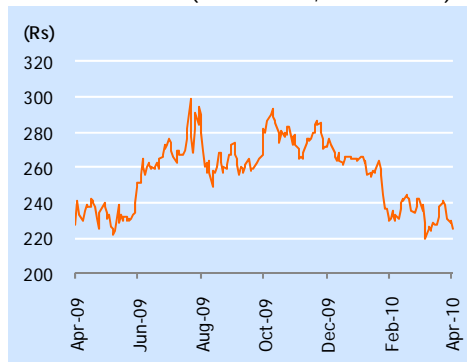
**Major Shareholders**

Promoters	52.02%
Foreign	15.04%
Domestic Inst.	13.90%
Public & Others	19.04%

**Stock Performance**

(%)	1M	6M	12M
Absolute	(6.3)	(22.0)	(7.1)
Relative	(11.1)	(28.4)	(73.9)

Price Performance (RIC: HLL.BO, BB: HUVR IN)



Source: Bloomberg

As expected by us (refer our note, "The games have begun", dated 8-3-2010), "price war" has extended from Detergents to Shampoo category. According to channel sources, P&G has taken indirect price cuts in shampoo sachets (both Head & Shoulders and Pantene brands) by increasing the sachet content by 20%, effective price cut of 17.6%. We also expect P&G to take price cut in Head & Shoulders bottles to the tune of 11-16% in all its sku's starting next week, which we believe will be followed by cut in Pantene bottles. Consequently, we expect HUVR to react with price cuts/consumer promos in its Clear and Sunsilk brand, which will necessitate one more round of earnings downgrade and incremental pressure on the stock, in our view.

- **Price war spreads to Shampoo category:** As expected by us, price war in detergents category has spread to shampoo category. P&G has increased shampoo sachet contents by 20% in both Head & Shoulders and Pantene (from 7ml to 8.4ml and 7.5ml to 9ml, respectively) as a part of "consumer offer". As per our channel checks, P&G is also expected to cut prices of Head & Shoulders bottles by 14.5%, 15.6% and 11.6% in 90ml, 200ml and 400ml sku's, respectively in next week, again as a part of "consumer offer". This, we believe will be followed by similar cuts in Pantene bottles a little later. This is partly to do with the flat to declining market share trend in shampoos for P&G in the recent months, in our view. Needless to say, this will necessitate price cuts/consumer promotion by HUVR which has 44% market share in shampoos and which, as per our estimates contribute nearly -7% and -10-11% of HUVR's sales and EBIT, respectively.
- **HUVR can potentially see one more round of earnings downgrades:** As and when HUVR responds to P&G's "consumer offer" in Shampoos, it will entail one more round of earnings downgrades in our view. HUVR has seen consensus earnings downgrades of -12-15% in last 45 days. Given this backdrop, valuations, which already look expensive at P/E of 22-23 times FY11E given the depressing earnings growth scenario, will look further expensive post the earnings downgrades. We await HUVR's counter move before cementing our estimates. Pressure on market shares, continued onslaught from P&G (we expect tougher times ahead) absence of value growth owing to incessant price war, rising input costs, elevated ad spends and increased royalty payments underpin our bearish stance on HUVR. This is notwithstanding the 8-10% volume growth that we expect in 4QFY10E, partly as a result of base effect. Reiterate Sell.

Key financials (Y/e March)	FY09	FY10E	FY11E	FY12E
Revenues (Rs m)	205,011	175,798	192,388	215,699
Growth (%)	47.8	(14.2)	9.4	12.1
EBITDA (Rs m)	27,029	27,420	28,593	32,144
PAT (Rs m)	24,900	21,229	22,168	25,028
EPS (Rs)	11.4	9.7	10.2	11.5
Growth (%)	43.1	(14.7)	4.4	12.9
Net DPS (Rs)	7.5	7.8	8.1	9.2

Source: Company Data; PL Research

Profitability & valuation	FY09	FY10E	FY11E	FY12E
EBITDA margin (%)	13.3	15.7	14.9	15.0
RoE (%)	136.6	96.3	94.6	100.4
RoCE (%)	133.6	97.1	96.7	104.4
EV / sales (x)	2.3	2.7	2.4	2.2
EV / EBITDA (x)	17.4	17.1	16.4	14.6
PE (x)	19.7	23.1	22.1	19.6
P / BV (x)	23.0	21.6	20.3	19.1
Net dividend yield (%)	3.3	3.5	3.6	4.1

Source: Company Data; PL Research

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**Price cuts in bottles will impact profitability:** As per trade channel checks, P&G has started consumer promotion of 20% more on both H&S (7ml) and Pantene sachets (7.5ml) which translates into an indirect price cut of ~16.7%. Interestingly, there is no offer/price cut/promotion on Rs1.5 sku's of the same brands. We are more concerned with the expected pricing actions in bottles as margins are much higher in bottles compared to sachets and therefore, the expected price cuts/promotions in bottles will deteriorate the profitability for all the players. We don't rule out the consumer offer stretching beyond the intended one month limited period. While Shampoos contribute 15-17% of P&G's India revenues, HUL derives roughly 7-8% of sales and 10-12% of EBIT from Shampoo category, in our view.

**Even though P&G's shampoo category has performed well...:** We believe P&G has done well in Shampoo category in the last 3-4 years and achieved an estimated volume cagr of 17-18% since FY06 with both the brands growing in 15-20% range. We believe H&S growth is driven by sachets which contribute ~60% of H&S sales while in case of Pantene, growth is led by bottles which is ~50% of Pantene revenues, as per our estimates. YTD growth in shampoo is driven by Head & Shoulder which according to our estimates, is growing at ~40% owing to increased distribution footprint and focussed promotions in wholesale channels.

**...market shares have been trending flat in recent times:** As per industry data, P&G's market shares in shampoos have been showing flat to declining trend in recent times. Meanwhile, Dabur has shown 100-150 bps improvement in shampoo market shares in last 12-15 months led by strong performance of Vatika brand. P&G's recent price cut/promotion is prompted by the need to prop up market share in a growing category like Shampoo. Trade channels suggest while off-take in H&S has been robust, Pantene sachet has underperformed (we estimate YTD volume growth of ~10-12% in Pantene sachets vs ~50% in H&S sachets)

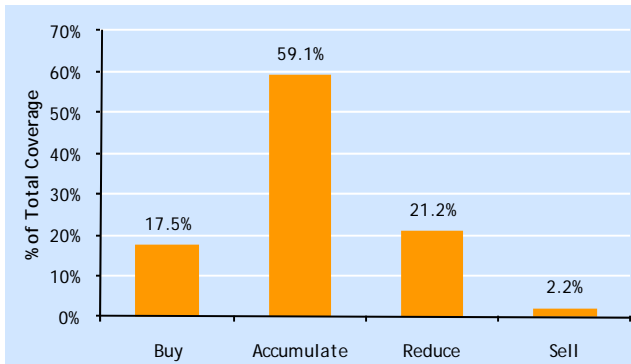
We reiterate our view that P&G's rising India ambitions and aggressive growth targets (plans to take revenues ~5x in 5 years) will put pressure on HUVR and other incumbents in short, medium and long term. Initiative to take price cut in shampoos, despite being a significant player in the category (~23-24% market share, revenues of ~Rs5bn for FY09 and YTD growth of ~30%) indicates P&G's aggression and intention to build size in the category. We expect more such initiatives in the near term in various categories where P&G is already present. We see more downside risk to our as well as consensus estimates for HUVR. Reiterate Sell.

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### PL's Recommendation Nomenclature

<b>BUY</b>	: Over 15% Outperformance to Sensex over 12-months	<b>Accumulate</b>	: Outperformance to Sensex over 12-months
<b>Reduce</b>	: Underperformance to Sensex over 12-months	<b>Sell</b>	: Over 15% underperformance to Sensex over 12-months
<b>Trading Buy</b>	: Over 10% absolute upside in 1-month	<b>Trading Sell</b>	: Over 10% absolute decline in 1-month
<b>Not Rated (NR)</b>	: No specific call on the stock	<b>Under Review (UR)</b>	: Rating likely to change shortly

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