

Visibility improves on strong Sep Q results; Buy

**Bank of America
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Acquisition benefit starts to flow in; PO raised to Rs470

Sep Q profit of Rs1.3bn was up 40% yoy beating our est by 27% on lower interest costs, higher other op income & lower tax. Operating profit in line with our est as higher sales growth was offset by lower margins. We have raised our est by 5-6% over FY11-12E to factor in lower interest cost & higher other op income. Maintain Buy and raise PO to Rs470 to factor in earnings raise and higher multiple 24x (vs 22x) on expected re-rating on better visibility on earnings post the strong Sep Q.

Domestic business weakness continues; Expect revival

Soaps declined 10% on low primary sales as de-stocking of high inventory levels continued. Hair Colors revived with 20% growth (12% vol growth). Though we have cut domestic est by 6-7% to factor in the current weakness, we are not concerned for long term health as 1) market share trends are positive 2) we expect revival in 2H as normal monsoons lead to fall in inflation & support rural demand and 3) favorable base as inventory de-stocking is now behind us.

Godrej Household products continues to outperform

GHPL sales grew 38% yoy led by new product launches and rising demand from disease threat in India. Our confidence on 25% sales growth and EBITDA margin of 21-22% is reaffirmed post this strong performance. GHPL is also generating additional royalty income from Megasari for its share of R&D efforts. This has led to Other income surprise in this qtr which we have adjusted for going forward.

New international acquisitions are a mixed bag

Existing international business of Keyline and Rapidol had weak growth on tough market conditions and unfavorable currency move. Also, Tura in Africa and Issue Group in LATAm performed weaker than expected as GCPL is investing significantly behind these companies. However, Megasari, largest international biz of GCPL has done well beating the expected 20% growth with 20% margin est.

Estimates (Mar)

| (Rs) | 2009A | 2010A | 2011E | 2012E | 2013E |
|----------------------------|-------|-------|-------|-------|-------|
| Net Income (Adjusted - mn) | 1,726 | 3,396 | 5,020 | 6,372 | 7,603 |
| EPS | 6.72 | 11.02 | 15.51 | 19.69 | 23.49 |
| EPS Change (YoY) | -4.7% | 64.0% | 40.8% | 26.9% | 19.3% |
| Dividend / Share | 4.00 | 4.08 | 4.65 | 5.91 | 7.05 |
| Free Cash Flow / Share | 6.52 | 8.25 | 13.64 | 17.89 | 23.15 |

Valuation (Mar)

| | 2009A | 2010A | 2011E | 2012E | 2013E |
|-----------------------|--------|--------|--------|--------|--------|
| P/E | 63.14x | 38.49x | 27.34x | 21.54x | 18.05x |
| Dividend Yield | 0.943% | 0.963% | 1.10% | 1.39% | 1.66% |
| EV / EBITDA* | 75.59x | 38.26x | 22.63x | 17.56x | 14.79x |
| Free Cash Flow Yield* | 1.22% | 1.85% | 3.22% | 4.22% | 5.46% |

* For full definitions of *iQmethod*SM measures, see page 9.

Stock Data

| | |
|-----------------------------|-------------------|
| Price | Rs424.10 |
| Price Objective | Rs470.00 |
| Date Established | 1-Nov-2010 |
| Investment Opinion | C-1-7 |
| Volatility Risk | HIGH |
| 52-Week Range | Rs225.00-Rs484.80 |
| Mrkt Val / Shares Out (mn) | US\$3,089 / 323.6 |
| Average Daily Volume | 347,652 |
| BofAML Ticker / Exchange | XGOCF / BSE |
| Bloomberg / Reuters | GCPL IN / GOCP.BO |
| ROE (2011E) | 36.3% |
| Net Dbt to Eqty (Mar-2010A) | -28.1% |
| Est. 5-Yr EPS / DPS Growth | 20.0% / 20.0% |
| Free Float | 30.7% |

Key Changes

| (Rs) | Previous | Current |
|---------------|----------|----------|
| Price Obj. | 400.00 | 470.00 |
| 2011E Rev (m) | 37,010.7 | 36,898.9 |
| 2012E Rev (m) | 45,645.2 | 45,779.8 |
| 2013E Rev (m) | 52,849.6 | 53,002.4 |
| 2011E EPS | 14.82 | 15.51 |
| 2012E EPS | 18.51 | 19.69 |
| 2013E EPS | 22.18 | 23.49 |

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Refer to important disclosures on page 10 to 12. Analyst Certification on Page 8. Price Objective Basis/Risk on page 8. Link to Definitions on page 8. 10988841

*iQprofile*SM Godrej Consumer Products Ltd.

Key Income Statement Data (Mar)

| (Rs Millions) | 2009A | 2010A | 2011E | 2012E | 2013E |
|--|---------|---------|----------|----------|----------|
| Sales | 13,966 | 20,437 | 36,899 | 45,780 | 53,002 |
| Gross Profit | 6,271 | 10,934 | 18,966 | 23,348 | 27,031 |
| Sell General & Admin Expense | (4,197) | (6,836) | (12,038) | (14,419) | (16,431) |
| Operating Profit | 1,882 | 3,862 | 6,416 | 8,398 | 10,051 |
| Net Interest & Other Income | 211 | 337 | 19 | (123) | (47) |
| Associates | NA | NA | NA | NA | NA |
| Pretax Income | 2,092 | 4,199 | 6,435 | 8,275 | 10,004 |
| Tax (expense) / Benefit | (366) | (803) | (1,416) | (1,903) | (2,401) |
| Net Income (Adjusted) | 1,726 | 3,396 | 5,020 | 6,372 | 7,603 |
| Average Fully Diluted Shares Outstanding | 257 | 308 | 324 | 324 | 324 |

Key Cash Flow Statement Data

| | | | | | |
|---|---------|---------|---------|---------|---------|
| Net Income | 1,726 | 3,396 | 5,020 | 6,372 | 7,603 |
| Depreciation & Amortization | 192 | 236 | 512 | 531 | 549 |
| Change in Working Capital | (242) | (327) | (816) | (813) | (361) |
| Deferred Taxation Charge | NA | NA | NA | NA | NA |
| Other Adjustments, Net | 0 | 0 | 0 | 0 | 0 |
| Cash Flow from Operations | 1,676 | 3,305 | 4,715 | 6,090 | 7,791 |
| Capital Expenditure | 0 | (763) | (300) | (300) | (300) |
| (Acquisition) / Disposal of Investments | NA | NA | NA | NA | NA |
| Other Cash Inflow / (Outflow) | 183 | (595) | 0 | 0 | 0 |
| Cash Flow from Investing | 183 | (1,358) | (300) | (300) | (300) |
| Shares Issue / (Repurchase) | 3,648 | 2,175 | 5,313 | 0 | 0 |
| Cost of Dividends Paid | (1,203) | (1,490) | (1,762) | (2,237) | (2,669) |
| Cash Flow from Financing | 3,350 | (1,722) | 23,851 | (5,839) | (7,573) |
| Free Cash Flow | 1,676 | 2,543 | 4,415 | 5,790 | 7,491 |
| Net Debt | (1,008) | (2,683) | 19,457 | 15,923 | 11,119 |
| Change in Net Debt | (4,305) | (2,633) | (7,966) | (3,554) | (4,822) |

Key Balance Sheet Data

| | | | | | |
|-------------------------------|--------|--------|--------|--------|--------|
| Property, Plant & Equipment | 2,297 | 2,626 | 2,690 | 2,478 | 2,247 |
| Other Non-Current Assets | 2,207 | 3,789 | 33,677 | 33,677 | 33,677 |
| Trade Receivables | 602 | 1,153 | 2,029 | 2,747 | 3,180 |
| Cash & Equivalents | 3,783 | 3,052 | 1,212 | 1,144 | 1,044 |
| Other Current Assets | 2,852 | 4,834 | 8,671 | 10,987 | 12,721 |
| Total Assets | 11,742 | 15,452 | 48,279 | 51,033 | 52,868 |
| Long-Term Debt | 2,776 | 369 | 20,669 | 17,067 | 12,163 |
| Other Non-Current Liabilities | 42 | 66 | 66 | 66 | 66 |
| Short-Term Debt | NA | NA | NA | NA | NA |
| Other Current Liabilities | 3,299 | 5,528 | 9,427 | 11,647 | 13,452 |
| Total Liabilities | 6,117 | 5,963 | 30,161 | 28,779 | 25,681 |
| Total Equity | 5,715 | 9,547 | 18,118 | 22,253 | 27,188 |
| Total Equity & Liabilities | 11,832 | 15,510 | 48,279 | 51,032 | 52,869 |

*iQmethod*SM - Bus Performance*

| | | | | | |
|----------------------------|-------|-------|-------|-------|-------|
| Return On Capital Employed | 28.6% | 38.0% | 22.2% | 17.6% | 20.4% |
| Return On Equity | 46.6% | 44.5% | 36.3% | 31.6% | 30.8% |
| Operating Margin | 13.5% | 18.9% | 17.4% | 18.3% | 19.0% |
| EBITDA Margin | 14.8% | 20.1% | 18.8% | 19.5% | 20.0% |

*iQmethod*SM - Quality of Earnings*

| | | | | | |
|--------------------------|--------|--------|--------|-------|-------|
| Cash Realization Ratio | 1.0x | 1.0x | 0.9x | 1.0x | 1.0x |
| Asset Replacement Ratio | 0x | 3.2x | 0.6x | 0.6x | 0.5x |
| Tax Rate (Reported) | 17.5% | 19.1% | 22.0% | 23.0% | 24.0% |
| Net Debt-to-Equity Ratio | -17.6% | -28.1% | 107.4% | 71.6% | 40.9% |
| Interest Cover | NA | 34.8x | 12.4x | 12.7x | 17.2x |

Key Metrics

* For full definitions of *iQmethod*SM measures, see page 9.

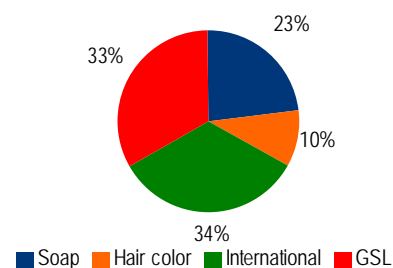
Company Description

Godrej Consumer is among the leading FMCG companies in India - second largest player in soaps and largest in hair color. It has market leading brands particularly in the economy and mid segments. It also has presence in other toiletries and detergents. Over the last few years it has made a number of overseas acquisitions mainly in developing countries. International business accounts for 25% of its total business.

Investment Thesis

Godrej is a Buy as we expect strong earnings growth to sustain. Recent spate of acquisitions is positive. It helps to drive earnings growth through synergies and also further diversifies business. Fear of slowdown in domestic business is cushioned post GSL stake hike. We expect Godrej to continue to re-rate as its earnings growth should be one of the strongest within sector. Upside risk is higher than expected benefit from synergies post integration. Downside risk is slower than expected growth.

Chart 1: Sales mix (FY11E)



Source: Banc of America Securities - Merrill Lynch Estimates

Stock Data

Price to Book Value 7.6x

Sep Q results reaffirm confidence

GCPL Sep Q net profit of Rs1.3bn was up 40% yoy, beating our estimates by 27%. Key reasons for surprise were 1) lower interest cost 2) higher other operating income and 3) lower tax. .

Domestic business should turnaround going forward

Sales decline of 3% in domestic business was below expectations as inventory de-stocking in soaps continued for longer than expected. But on the positive side, hair colors revived growth with 20% value growth during the quarter. Going forward we expect sales growth to pick up as inventory de-stocking is behind us and we are entering into a period of favorable base.

Godrej Household Products continues to shine

With 38% yoy sales growth, GHPL beat expectations. This strong growth was led by new product launches and surge in demand on rising concerns of malaria and dengue spread. Margins were however muted in this quarter as A&P spends went up to support new launches. Post this strong Sep Q, our confidence on a 25% sales growth with 21-22% margin is reaffirmed.

Market share gains across all categories is a positive

We are encouraged by the favorable market share trend for Godrej Consumers. It gained 20bp in hair colors and 350bp in household insecticides. Soaps also managed to retain healthy market share of 10.4%. This highlights the sustenance of consumer demand for GCPL despite lower primary sales.

Margin pressure to continue on input costs and A&P spends

EBITDA margin declined 170bp vs our estimates of 60bp decline. This was on higher than expected hit from rising input costs especially palm oil. Also, A&P spends in both domestic and international operations remained high. This hit the margins by 140bp. Though GCPL does have cushion of exceptionally high staff costs of last year, we believe high A&P spends and rising input costs will continue to create pressure on margins.

Growth of existing international operations weak

Keyline, the UK business of GCPL declined 8% during the quarter on high base of last year, weak market conditions and Re appreciation. Also, the existing South African business had a weak 8% growth on slowdown in economic conditions of the country.

New acquisitions - mixed performance emerges

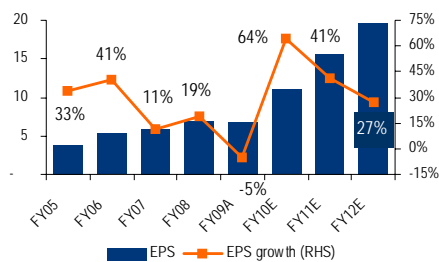
While the largest international business – Megasari continued to do well with what we believe to be a 20%+ growth and 21% EBITDA margin, the other two recent acquisitions were weaker than expected. Both Tura in Nigeria and Issue in LatAm will require higher A&P support to ramp up operations. So while the sales growth in both these businesses is likely to remain strong, the profitability in the near term will be an issue.

Table 1: Results highlights - Consolidated

| Year Ending March 31 | Q2 10 | Q2 11 | % chg | 1H 10 | 1H 11 | %chg |
|-------------------------------|--------------|--------------|--------------|---------------|---------------|--------------|
| Net Sales | 5,756 | 9,528 | 66% | 10,144 | 15,959 | 57% |
| Total Material costs | 2,714 | 4,619 | 70% | 4,736 | 7,787 | 64% |
| As % | 47.2% | 48.5% | 1.3% | 46.7% | 48.8% | 2.1% |
| Staff costs | 576.2 | 803.6 | 39% | 950 | 1,242 | 31% |
| Advertising & Sales Promotion | 509.4 | 979.5 | 92% | 943 | 1,630 | 73% |
| As % | 8.9% | 10.3% | 1.4% | 9.3% | 10.2% | |
| Other expenditure | 836.6 | 1435.8 | 72% | 1,533 | 2,418 | 58% |
| EBITDA | 1,119 | 1,690 | 51% | 1,984 | 2,881 | 45% |
| EBITDA margin | 19.4% | 17.7% | -1.7% | 19.6% | 18.1% | -1.5% |
| Depreciation | 67.6 | 154.5 | | 120 | 239 | |
| EBIT | 1052 | 1535 | 46% | 1,864 | 2,643 | 42% |
| Interest | 26.1 | 88.9 | | 64 | 194 | |
| Profit bef OI | 1026 | 1447 | 41% | 1,800 | 2,449 | 36% |
| Other Income | 138.8 | 194 | | 240 | 278 | |
| Pretax profit | 1164 | 1641 | 41% | 2,040 | 2,727 | 34% |
| Total Tax | 234 | 338 | | 414 | 577 | |
| Tax rate | 20.1% | 20.6% | | 20.3% | 21.2% | -0.8% |
| Net profit | 930 | 1302 | 40% | 1,627 | 2,150 | 32% |
| Shares O/S | 308 | 325 | | 308 | 325 | |
| EPS | 3.0 | 4.0 | 33% | 5 | 7 | 25% |

Source: Company, Banc of America Securities – Merrill Lynch Estimates

Chart 2: EPS and EPS growth trends



Source: Company, Banc of America Securities – Merrill Lynch Estimates

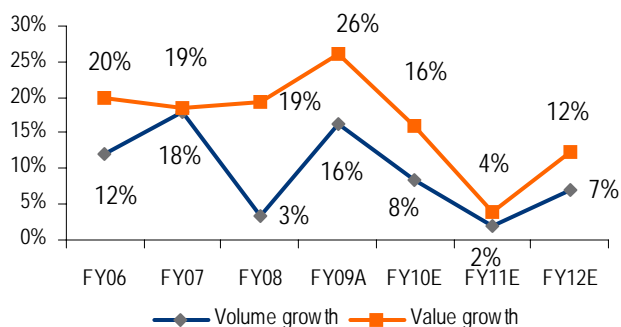
Earnings growth remains strong; Buy

We have raised our EPS estimates for GCPL by 5-6% for FY11-12E to factor in current surprise in earnings from better performance from Godrej Household Products, lower interest cost and higher other operational income. This is despite a lower earnings estimate in domestic business for which have cut the earnings estimates by 6-7% and also some cut in earnings in international business other than Megasari. With we now have an EPS CAGR of 34% over FY10-12E.

Domestic growth revival should be strong in 2H

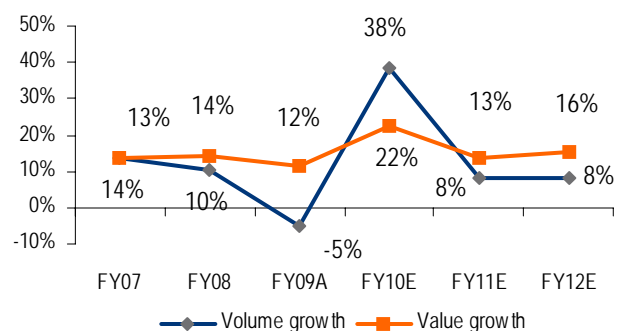
We believe the problem with slowdown in Soaps is temporary and hair color has already showed revival. Market share trends for both the categories indicate consumer demand remains strong. Clearly, trade de-stocking is a near term phenomenon and growth should revive when normal trade inventory levels are restored. Also, with monsoons running normal, growth should revive in 2H when food inflation comes off and there is support from rural demand.

Chart 3: Soaps – Value and volume growth trends



Source: Company, Banc of America Securities – Merrill Lynch Estimates

Chart 4: Hair color – Value and volume growth trends



Source: Company, Banc of America Securities – Merrill Lynch Estimates

Godrej Household Products continues to do well

Godrej Household Products (aka Godrej Sara Lee) continues to do well with 38% sales growth during the quarter. This gives us confidence that GHPL should achieve our 25% growth estimate for FY11-12E. Synergies from combined distribution are yet to be realized and that should help to improve sales (especially in North India) and also rationalize distribution costs. Also, GHPL is earning royalty from Megasari for the shared R&D effort. This has led to the surprise in other operating income in this quarter and we have adjusted our estimates going forward for this income.

Ex-Megasari growth in international business is the key

At this point in time we are not concerned about slowdown in international businesses of GCPL. We have already factored in a much weaker Keyline and also had moderate expectations from South African businesses. Sub par performance by Tura and Issue are not encouraging. However, given that their sales growth is strong but profits are hit due to higher investment behind brands, we remain hopeful of strong earnings growth once the investment phase is over.

Megasari continues to grow strongly and is crucial for overall performance as it commands ~40% of the total international business for GCPL. We remain hopeful of a 20% growth with a 21-22% margin for Megasari.

Synergy led growth in recent acquisitions could surprise

We remain confident of synergies surprising on the upside from recent acquisitions. Most of these could however have an impact only from FY12E onwards post the stabilization of the acquired businesses. We therefore due to lack of visibility and non availability of longer term trends maintain our conservative growth estimates of ~15-20% for these acquisitions. This remains the key upside risk to our earnings estimates.

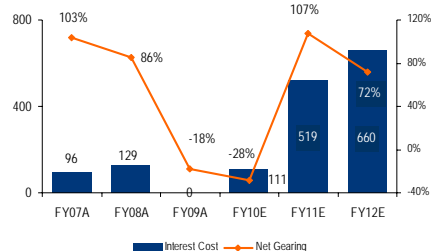
Low interest costs are now built in

Interest costs hold potential for significant positive surprise. US\$350mn loan is currently held at US 6m LIBOR + 150-175bp. This at current LIBOR levels implies a rate of interest of only 2% pa. We had conservatively assumed our interest costs at 5-6% pa to factor in possible hedging costs. However, given the surprise in quarterly results continues to be significant on this count, we have now built in an interest rate of 3-4% over FY11-13E.

Maintain Buy; PO raised to Rs470

Given the strong earnings CAGR of 34% over FY11-12E we maintain Buy rating on Godrej Consumers. We believe there is strong case of earnings upgrades coming through in 2HFY11 led by 1) revival in domestic business 2) lower interest costs 3) higher than expected growth from international acquisitions. We maintain raise our PO to Rs470 at 24x FY12E EPS of Rs19.7.

Chart 5: Interest cost and net gearing trends



Source: Company, Banc of America Securities – Merrill Lynch Estimates

Summarized financial estimates

Table 2: Summarized earnings estimates - Consolidated

| (Rs mn) | FY09A | FY10A | FY11E | FY12E | FY13E |
|------------------------------|---------------|---------------|---------------|---------------|---------------|
| Net Sales | 13,966 | 20,437 | 36,899 | 45,780 | 53,002 |
| % chg | 27% | 46% | 81% | 24% | 16% |
| Standalone | 10,491 | 12,679 | 13,288 | 15,075 | 17,106 |
| International | 3,130 | 3,782 | 11,933 | 15,477 | 17,980 |
| Sara Lee | | 4,068 | 11,393 | 14,942 | 17,632 |
| EBITDA - Total | 2,074 | 4,098 | 6,928 | 8,929 | 10,600 |
| EBIDTA - standalone | 1,603 | 2,660 | 2,579 | 2,949 | 3,409 |
| EBIDTA - international | 471 | 595 | 1,956 | 2,767 | 3,312 |
| EBITDA - Sara Lee | | 773 | 2,393 | 3,213 | 3,879 |
| EBITDA Margin | 14.8% | 20.1% | 18.8% | 19.5% | 20.0% |
| Depreciation | 192 | 236 | 512 | 531 | 549 |
| EBIT | 1,882 | 3,862 | 6,416 | 8,398 | 10,051 |
| % chg | -5% | 105% | 66% | 31% | 20% |
| Net interest cost / (income) | (211) | (337) | (19) | 123 | 47 |
| PBT | 2,092 | 4,199 | 6,435 | 8,275 | 10,004 |
| Total Tax | 366 | 803 | 1,416 | 1,903 | 2,401 |
| Tax Rate | 17.5% | 19.1% | 22.0% | 23.0% | 24.0% |
| Net Profit | 1,726 | 3,396 | 5,020 | 6,372 | 7,603 |
| % chg | 8% | 97% | 48% | 27% | 19% |
| EPS | 6.7 | 11.0 | 15.5 | 19.7 | 23.5 |
| % chg | -5% | 64% | 41% | 27% | 19% |

Source: Company, BofA Merrill Lynch Global Research Estimates

Table 3: Summarized balance sheet estimates - Consolidated

| (Rs mn) | FY09A | FY10A | FY11E | FY12E | FY13E |
|---------------------------------------|---------------|---------------|---------------|---------------|---------------|
| Share Capital | 257 | 308 | 324 | 324 | 324 |
| Reserves | 5,458 | 9,239 | 17,794 | 21,929 | 26,864 |
| Loans | 2,776 | 369 | 20,669 | 17,067 | 12,163 |
| Deferred Tax Liability | 42 | 66 | 66 | 66 | 66 |
| Current Liabilities | 2,919 | 5,326 | 9,225 | 11,445 | 13,251 |
| Provisions | 380 | 202 | 202 | 202 | 202 |
| Total Liabilities | 11,832 | 15,510 | 48,279 | 51,032 | 52,869 |
| Net Fixed Assets | 2,297 | 2,626 | 2,690 | 2,478 | 2,247 |
| Goodwill | 2,132 | 3,119 | 33,007 | 33,007 | 33,007 |
| Investments | 75 | 670 | 670 | 670 | 670 |
| Inventories | 1,675 | 2,644 | 4,981 | 6,409 | 7,420 |
| Debtors | 602 | 1,153 | 2,029 | 2,747 | 3,180 |
| Loans and Advances | 1,178 | 2,189 | 3,690 | 4,578 | 5,300 |
| Total Cash | 3,783 | 3,052 | 1,212 | 1,144 | 1,044 |
| Total Current Assets (ex cash) | 3,544 | 6,044 | 10,701 | 13,734 | 15,901 |
| Total Assets | 11,832 | 15,510 | 48,279 | 51,033 | 52,868 |

Source: Company, BofA Merrill Lynch Global Research Estimates

Table 4: Summarized cashflow estimates - Consolidated

| (Rs mn) | FY09A | FY10A | FY11E | FY12E | FY13E |
|----------------------------------|--------------|----------------|-----------------|----------------|----------------|
| Profit after tax | 1,726 | 3,396 | 5,020 | 6,372 | 7,603 |
| Add depr | 192 | 236 | 512 | 531 | 549 |
| Cash bef W Cap changes | 1,918 | 3,632 | 5,531 | 6,903 | 8,152 |
| Working cap change | (242) | (327) | (816) | (813) | (361) |
| Cash from operations | 1,676 | 3,305 | 4,715 | 6,090 | 7,791 |
| (Incr) / Decr in Fixed Assets | 258 | (763) | (300) | (300) | (300) |
| (Incr) / Decr in Investments | (75) | (595) | - | - | - |
| (Incr)/Decr in Goodwill | (1,176) | (986) | (29,888) | - | - |
| Free cash flow | 683 | 962 | (25,473) | 5,790 | 7,491 |
| Incr / (decr) in Equity | 3,648 | 2,175 | 5,313 | - | - |
| Incr / (decr) in Debt | 905 | (2,407) | 20,300 | (3,602) | (4,904) |
| Dividend & Div tax payout | (1,203) | (1,490) | (1,762) | (2,237) | (2,669) |
| Total Cash from financing | 3,350 | (1,722) | 23,851 | (5,839) | (7,573) |
| Total cash flow | 4,033 | (760) | (1,622) | (48) | (82) |

Source: Company, BofA Merrill Lynch Global Research Estimates

Table 5: Key Ratios

| | FY09A | FY10A | FY11E | FY12E | FY13E |
|-----------------|-------|-------|-------|-------|-------|
| Net debt/Equity | -18% | -28% | 107% | 72% | 41% |
| RoCE | 18% | 25% | 16% | 13% | 15% |
| RoE | 47% | 45% | 36% | 32% | 31% |
| EV/EBITDA | 49.1 | 29.4 | 21.5 | 16.3 | 13.3 |

Source: Company, BofA Merrill Lynch Global Research Estimates

Price objective basis & risk

Godrej Consumer Products Ltd. (XGOCF)

Our preferred valuation methodology is a target P/E multiple on one year forward EPS. Our target multiple for Godrej is 24x, which on FY12E EPS of Rs19.7 gives us our price objective of Rs470. Our target multiple is at 10pc premium to the FMCG universe and last 5-year trading multiple for Godrej. We believe this premium is justified given expected stronger earnings CAGR of 34pc over FY11-12E. Upside risks are better than expected top-line growth, higher synergies from international acquisitions. Downside risks are lower than expected margin expansion on rising palm oil prices and low visibility on performance of international business.

Link to Definitions

Consumer & Retail

Click [here](#) for definitions of commonly used terms.

Analyst Certification

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India - Consumer Coverage Cluster

| Investment rating | Company | BofAML ticker | Bloomberg symbol | Analyst |
|-------------------|-------------------------------|---------------|------------------|-------------|
| BUY | Asian Paints | XAPNF | APNT IN | Anuj Bansal |
| | Colgate India | CPIYF | CLGT IN | Anuj Bansal |
| | Dabur India | DBUIF | DABUR IN | Anuj Bansal |
| | Godrej Consumer Products Ltd. | XGOCF | GCPL IN | Anuj Bansal |

India - Consumer Coverage Cluster

| Investment rating | Company | BofAML ticker | Bloomberg symbol | Analyst |
|---------------------|--------------------------|---------------|------------------|-----------------|
| | ITC Limited | ITCTF | ITC IN | Anuj Bansal |
| | K S Oils Limited | XKSO | KSO IN | Prasad Deshmukh |
| | McLeod Russel India Ltd. | XCVFF | MCLR IN | Prasad Deshmukh |
| | Pantaloen | PFIAF | PF IN | Anuj Bansal |
| | Radico Khaitan | RKHAF | RDCK IN | Anuj Bansal |
| | Titan Industries Ltd | TTNIF | TTAN IN | Anuj Bansal |
| | United Spirits | UDSRF | UNSP IN | Anuj Bansal |
| UNDERPERFORM | | | | |
| | Hindustan Unilever | HINLF | HUVR IN | Anuj Bansal |
| | Nestle India | XNTEF | NEST IN | Anuj Bansal |
| | Shoppers' Stop | XPQUF | SHOP IN | Anuj Bansal |

iQmethodSM Measures Definitions

| Business Performance | Numerator | Denominator |
|----------------------------|---|---|
| Return On Capital Employed | $\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) * (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$ | $\text{Total Assets} - \text{Current Liabilities} + \text{ST Debt} + \text{Accumulated Goodwill}$ |
| Return On Equity | Net Income | Shareholders' Equity |
| Operating Margin | Operating Profit | Sales |
| Earnings Growth | Expected 5-Year CAGR From Latest Actual | N/A |
| Free Cash Flow | Cash Flow From Operations – Total Capex | N/A |
| Quality of Earnings | | |
| Cash Realization Ratio | Cash Flow From Operations | Net Income |
| Asset Replacement Ratio | Capex | Depreciation |
| Tax Rate | Tax Charge | Pre-Tax Income |
| Net Debt-To-Equity Ratio | $\text{Net Debt} = \text{Total Debt, Less Cash \& Equivalents}$ | Total Equity |
| Interest Cover | EBIT | Interest Expense |
| Valuation Toolkit | | |
| Price / Earnings Ratio | Current Share Price | Diluted Earnings Per Share (Basis As Specified) |
| Price / Book Value | Current Share Price | Shareholders' Equity / Current Basic Shares |
| Dividend Yield | Annualised Declared Cash Dividend | Current Share Price |
| Free Cash Flow Yield | Cash Flow From Operations – Total Capex | Market Cap. = Current Share Price * Current Basic Shares |
| Enterprise Value / Sales | $\text{EV} = \text{Current Share Price} * \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Other LT Liabilities}$ | Sales |
| EV / EBITDA | Enterprise Value | Basic EBIT + Depreciation + Amortization |

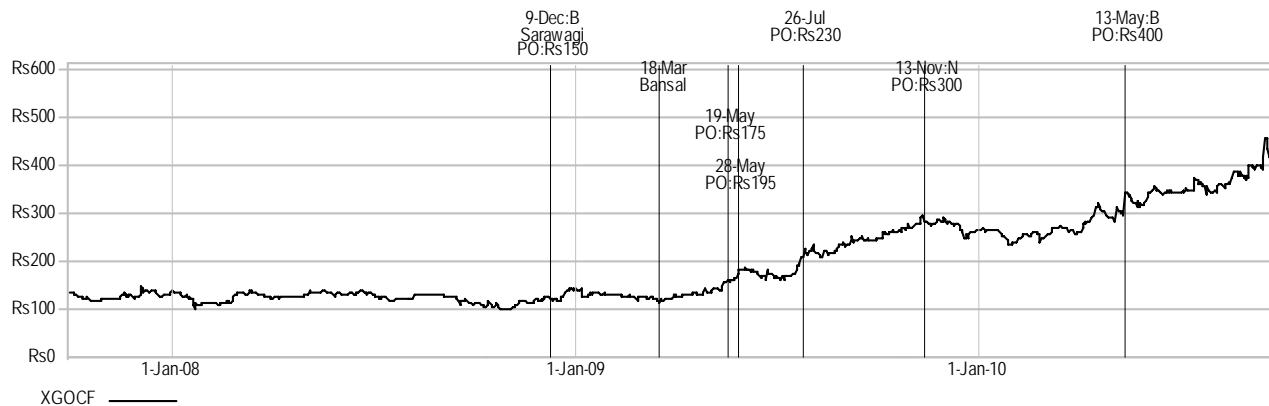
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XGOCF Price Chart



B : Buy, N : Neutral, S : Sell, U : Underperform, PO : Price objective, NA : No longer valid, NR: No Rating

*Prior to May 31, 2008, the investment opinion system included Buy, Neutral and Sell. As of May 31, 2008, the investment opinion system includes Buy, Neutral and Underperform. Dark Grey shading indicates that a security is restricted with the opinion suspended. Light grey shading indicates that a security is under review with the opinion withdrawn. The current investment opinion key is contained at the end of the report. Chart is current as of August 31, 2010 or such later date as indicated. BofA Merrill Lynch price charts do not reflect analysts' coverage of the stock at prior firms."

Investment Rating Distribution: Consumer Products Group (as of 01 Oct 2010)

| Coverage Universe | Count | Percent | Inv. Banking Relationships* | Count | Percent |
|-------------------|-------|---------|-----------------------------|-------|---------|
| Buy | 35 | 53.85% | Buy | 17 | 53.13% |
| Neutral | 14 | 21.54% | Neutral | 7 | 58.33% |
| Sell | 16 | 24.62% | Sell | 7 | 43.75% |

Investment Rating Distribution: Global Group (as of 01 Oct 2010)

| Coverage Universe | Count | Percent | Inv. Banking Relationships* | Count | Percent |
|-------------------|-------|---------|-----------------------------|-------|---------|
| Buy | 1948 | 54.31% | Buy | 821 | 46.73% |
| Neutral | 891 | 24.84% | Neutral | 397 | 49.07% |
| Sell | 748 | 20.85% | Sell | 259 | 37.16% |

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| Investment rating | Total return expectation (within 12-month period of date of initial rating) | Ratings dispersion guidelines for coverage cluster* |
|-------------------|---|---|
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| Neutral | ≥ 0% | ≤ 30% |
| Underperform | N/A | ≥ 20% |

* Ratings dispersions may vary from time to time where BofAML Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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