PINC RESEARCH

Infinity.com Financial Securities Ltd
SMALL WORLD, INFINITE OPPORTUNITIES

09 January, 2012

SECTOR REPORT

FMCG SECTOR

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Selective Picks

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SECTOR OVERVIEW

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Sector View - Neutral

FMCG SECTOR

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Executive Summary

Selective Picks

- India's past 5 years average GDP growth was at ~8.6% which was way ahead of ~5.5% GDP growth in the last 5 decades. India's key states Maharashtra, UP, AP, TN, West Bengal and Gujarat have contributed well towards India's robust growth. These 6 states contribute >50% to the Indian GDP and grew by >13% in the past 5 years.
- Urban India growth is marked by rise in urban population mix which stands at 30% as compared to 18% in 1960. Besides, there is a significant expansion in upper urban income mix to 36% in 2010 from 17% in 2002. Such favourable transformation is supporting FMCG companies from premiumisation perspective.
- Rural market is being driven by growth in non-agriculture income, better MSP rates, higher education and the Government's emphasis on rural development programmes. Large rural population provides consistent volume growth for FMCG companies.
- FMCG categories, with low per capita and low penetration level i.e. skin care, shampoo, oral care, deodorant and packaged juices are the opportunities for FMCG companies. While categories like soaps and detergents which have high penetration level can also show healthy growth due to their low per capita consumption.
- International business is an opportunity for the long term growth potential for domestic FMCG companies. Entrance into new geographies provides growth scope for the established brands/power brands. However, we expect initial cost would impact the profitability of domestic players in the near term.
- We evaluate the competitive strength of FMCG companies based on our **'RIVER'** analysis through which HUL, Nestle, Dabur and ITC are the foremost rankers.

Sector Valuation

FMCG sector, in the current global financial turmoil, converted into a preferable bet for the investors which resulted in 35% outperformance of BSE FMCG over BSE-Sensex in the past 12 months. FMCG sector trades at ~27x P/E on 12-month forward earnings which is ~13% higher than its past 5 years median P/E. FMCG sector valuations are at 118% premium over BSE-Sensex (above +2 standard deviation) as compared to the 5 year average premium of 70%. FMCG valuations are very expensive and we believe going forward growth in net earnings would play a key role in the stocks' performance.

At the current juncture, we prefer stocks on their relative traits where earnings growth and valuations both are at attractive level.

Recommendation

We initiate coverage on ITC (BUY) and HUL (REDUCE) while update on Nestle India (SELL), Dabur (ACCUMULATE), Colgate (REDUCE), Marico (REDUCE) and Jyothy Labs (BUY).

Sector Summary *

KEY FINANCIALS

Company	Mcap (Rs bn)	Reco	Net Sales (Rs mn)		EPS (Rs)		P/E (x)		TP (Rs)	Potential Upside
			FY13E	FY14E	FY13E	FY14E	FY13E	FY14E		
ITC	1,563	BUY	309,394	355,647	9.4	10.9	21.5	18.6	233	15.3%
HUL	857	REDUCE	261,492	298,550	13.5	15.7	29.3	25.2	371	(6.5)%
Nestle #	399	SELL	94,350	117,129	118.3	146.3	35.0	28.3	3,618	(12.7)%
Dabur	172	ACCUMULATE	59,628	69,055	4.6	5.5	21.7	18.0	109	10.1%
Colgate	133	REDUCE	31,276	36,130	38.6	44.7	25.4	22.0	937	(4.5)%
Marico	93	REDUCE	45,905	53,600	6.3	7.9	24.1	19.1	144	(4.6)%
Jyothy Labs	13	BUY	13,754	15,678	12.4	15.0	12.9	10.6	212	32.5%

** All stocks prices based on 6th January 2012 closing # Dec. ending company*

ITC (CMP Rs202, TP Rs233, Reco- BUY with an upside of 15%)

Investment Rationale

- ITC's cigarette dominance would persist on the back of extensive cigarette portfolio, large distribution network, consumers' stickiness towards its brands and appropriate backward integration. We expect ITC's strong pricing power would help it in maintaining the healthy growth.
- We believe ITC's cigarette business growth would drive the overall profitability. Better cigarette revenue mix, higher operational efficiency and cigarette pricing power would expand PBIT/stick to 103paise by FY14E from 71paise in FY11.
- We expect ITC's non cigarette business to show 17% CAGR during FY11-14E as compared to 13% CAGR during FY08-11E. FMCG business has grown 15x in the past 8 years through consistent entrance into new segments and aggressive marketing strategy. We expect FMCG business to clock 20% CAGR during FY11-14E owing to better foothold of the existing portfolio and consistent investment in innovation. Paperboard and Agribusiness would maintain their robust growth and we expect 16% and 13% CAGR during FY11-14E respectively. We expect non cigarette business to contribute 21% of ITC's total PBIT in FY14E as compared to 19% in FY11.

VALUATIONS AND RECOMMENDATION

We value ITC using DCF methodology and arrive at a target price of Rs233. We believe relative valuation is not feasible as there is no appropriate comparable for ITC. The stock has 15% upside potential hence we initiate ITC with 'BUY' rating. ITC has high dependence on cigarette business hence any significant change in the govt. regulation on cigarette can lead to change in our estimates.

HUL (CMP Rs397, TP Rs371, Reco- REDUCE with a downside of 6%)

Investment Rationale

- The higher involvement of top management at the field level, setting up of aggressive sales targets and expansion in distribution network are the indicators for business development going forward. We expect it would help in delivering better revenue going forward which HUL was missing in previous several years. However, as HUL has already reduced A&P (% of sales) spending during H1FY12 further control is limited. A&P (% of sales) spending substantially declined during H1FY12 to 11.5% v/s 14% in FY11. We expect sales and net earnings to show 14.1% and 16.6% CAGR during FY11-14E as compared to 12.4% and 7% during FY08-11 respectively.
- As per our 'RIVER' analysis, skin care has the highest ranking in terms of competitive positioning among HUL's other categories. We believe skin care contributes 38% and 50% of sales and profitability of Personal Care business.
- The performance of 'Soaps and Detergent' segment in the past 3 quarters was very encouraging. The segment has not only shown better volume growth but simultaneously improved the profitability profile too. HUL in FY11 reported lowest PBIT margin of 9.5% which we believe was largely due to down trading in the detergent products. We expect segment profitability would improve from FY11 level however, achieving historical mid teen margin seems difficult due to high competition from P&G, Rohit Surfactant (Ghari), Godrej Consumers, Wipro, Reckitt Benkiser and ITC which would limit the profitability upside for the segment.

VALUATIONS AND RECOMMENDATION

We value HUL at P/E of 28x (12-month forward earnings) which is ~10% premium to the FMCG sector valuations and ~8% higher than its past three years median P/E. We arrive at a target price of Rs371 which is 6% down from the CMP. Hence, we initiate HUL with a 'REDUCE' rating.

Nestle India (CMP Rs4,143, TP Rs3,618, Reco- SELL with a downside of 13%)

Investment Rationale

- Nestle India (Nestle) underperformed BSE FMCG by 7% during last 6 months but its valuations are still very expensive. Nestle's valuations premium has come down to 31% from 45% during this time. Considering pressure on Nestle's EBITDA margin, reduction in return ratios and improvement in performance of peers, we argue that Nestle's P/E premium should reduce further.
- Nestle reported 9% volume growth during 9MCY11 which is the slowest growth in the past 5 years. Milk Product & Nutrition, Prepared Dishes and Chocolates registered slower volume growth of 4%, 15% and 1% while Beverages registered volume contraction during 9MCY11. Rising competition and sharp price hike on all the key brands were the key reason for slower volume growth performance.
- We believe Nestle's EBITDA margin would be lower by 90bps during CY10-13E on account of limited scope of further price hike and higher marketing spending for retaining leadership position.

VALUATIONS AND RECOMMENDATION

Nestle's monopoly in Maggi noodles would be difficult to maintain for long time post the entrance of big players. Competition is rising in almost all the categories while Nestle is expanding capacities which would force the company to maintain volume market share. Therefore, we expect pressure on pricing power of key brands. Nestle trades at a ~31% premium to the FMCG sector and we argue that this premium would narrow. We peg 30x P/E multiple on 12-months forward earnings and revise our TP to Rs3,618 (Rs3,578 earlier). We maintain 'SELL' rating on the stock.

Dabur (CMP Rs99, TP Rs109, Reco- ACCUMULATE with an upside of 10%)

Investment Rationale

- Dabur India's (Dabur) rural segment is facing slowdown which impacted its H1FY12 performance. Consolidated net sales has shown robust 31% growth led by its recent acquisitions (Hobi Kozmetic and Namaste Group), excluding the same, sales grew at a slower pace of 13% during H1FY12. Hair oil and food categories were the exception and clocked strong growth of 21% and 30% during H1FY12 while skin care, health supplement, oral care and home care displayed muted growth of 7%, 4%, 9% and 10% growth respectively during H1FY12. We have not witnessed the recovery of shampoo business during H1FY12 which posted 24% YoY decline due to sharp price cut by its peers.
- Dabur's international business (excluding recent acquisitions) displayed 18% growth in H1FY12 which was also lower as compared to the past three years' >25% history. GCC, Egypt and Nigeria continue to perform well and registered 27%, 27% and 36% growth during H1FY12 respectively.
- We expect EBITDA margin during FY12-14E would be lower than FY10-11 as we believe higher contribution of low margin acquisitions. Hobi Kozmetic and Namaste Group fetch low profitability profile which would change the overall profitability profile of the company. We expect Hobi and Namaste would combined contribute 13% and 10% of consolidated sales and EBITDA of FY14.

VALUATIONS AND RECOMMENDATION

Dabur's strong presence in the domestic market through its robust portfolio and regular entrance in geographies enabled it to maintain its high growth momentum. We retain our 25x multiple on 12-month forward earnings and derive TP of Rs109 (earlier Rs107). We maintain our 'ACCUMULATE' rating on the stock.

Colgate (CMP Rs981 TP Rs937, Reco- REDUCE with a downside of 4%)

Investment Rationale

- In our sector thesis we mentioned that oral care is one of the personal categories which has low weightage in the monthly household budget therefore its price sensitivity is low. We witnessed this in the Colgate's H1FY12 performance in which volume growth was maintained despite taking price hike on most of the brands.
- We believe oral care market is set for premiumisation which would lead to better price growth for Colgate in FY13 and FY14.
- Colgate is the only company in FMCG space that increased its A&P spendt in H1FY12 while most of the other players were protecting profitability through lower A&P spends. Colgate's aggression was to expand its market share as well as to promote sensitive oral care segment. We believe Colgate would continue to spend high on A&P in FY13 and FY14 to maintain its double digit volume growth.
- We increase our target multiple from 24x to 25x on 12-month forward earnings as Colgate's aggressive marketing efforts would further strengthen its position in the oral care industry.

VALUATIONS AND RECOMMENDATION

We expect volume growth to sustain owing to Colgate's regular product launches, higher rural focus and continued dental awareness programmes. We increase our target multiple from 24x to 25x on 12-month forward earnings and arrive at a TP of Rs937 (earlier Rs878). We upgrade our recommendation to 'REDUCE' from 'SELL'.

Marico (CMP Rs151, TP Rs144, Reco- REDUCE with a downside 5%)

Investment Rationale

- Marico's 29% sales growth in H1FY12 is not sustainable in our opinion. Marico has already taken sharp price hike on Parachute which limits the scope of further price hike. Parachute volume growth at ~17% during H1FY12 was ahead of our expectation and we expect it to taper down.
- We believe softening of input prices would be set off by higher A&P spend. New product launches and requirement of higher marketing efforts in the international business would force Marico to escalate A&P (% of sales) spending by 200-250bps going forward from 9.7% in H1FY12.
- Slower growth in depreciation and interest cost would translate ~19% EBITDA CAGR into ~22% net earnings CAGR during FY11-14E.

VALUATIONS AND RECOMMENDATION

On account of limited product portfolio, higher exposure to commodity prices and moderate scope for further price hike on key brands, we maintain Marico's P/E discount over FMCG sector. We retain our 24x multiple on 12-month forward earnings and raise TP to Rs144 (earlier Rs141). We maintain our 'REDUCE' rating on the stock.

Jyothy Labs (CMP Rs160, TP Rs212, Reco- BUY with an upside of 33%)

Investment Rationale

- We believe Jyothy's standalone low EBITDA margin in H1FY12 is not sustainable going forward. Ujala Supreme contributes >70% of the standalone EBITDA and post the stability in the sales distribution we expect better business from this front. Ujala Supreme sales in H1FY12 was down by ~10% which why overall profitability was under pressure. We don't see reasons for pressure on its consumer demand.
- Improvement in Henkel's profitability since acquisition has been encouraging. However, the key challenge will be to harness the synergy by improving the sales of Henkel brands. Other thing to watch out for will be monetization of idle assets available with Henkel which will help the company in reducing the interest burden.
- We remain positive on the long term growth potential of the combined business. The combined entity represents several synergies i.e. better revenue mix, optimum rural/ urban ratio and cost saving on distribution. Jyothy now has multiple drivers to run the business and better execution can reduce timing of turnaround in Henkel India.

VALUATIONS AND RECOMMENDATION

Jyothy's slack performance in the past three quarters has resulted into 40% decline in the stock price in the past 12 months. We believe investor's visibility in the business would be clearer with each quarter's better performance. We maintain 16x multiple to Jyothy's FY13 earnings and add Rs12/share NPV on tax saving of Rs1.2bn at 12% discount rate. We maintain our 'BUY' recommendation with TP of Rs212.

Exhibit 1 - Financial Summary

(Rs mn)	Sales			Sales CAGR	EBITDA Margin			EBITDA CAGR	Adjusted PAT			EPS (Rs)			EPS CAGR
Companies	FY12E	FY13E	FY14E	FY11-14E	FY12E	FY13E	FY14E	FY11-14E	FY12E	FY13E	FY14E	FY12E	FY13E	FY14E	FY11-14E
ITC	267,694	309,394	355,647	16.7%	34.2%	34.5%	34.5%	18.1%	61,963	72,800	84,095	8.0	9.4	10.9	19.1%
HUL	229,960	261,492	298,550	14.1%	14.2%	14.5%	14.7%	17.4%	25,225	29,229	33,987	11.7	13.5	15.7	16.6%
Nestle #	76,556	94,350	117,129	23.0%	19.8%	19.5%	19.2%	21.1%	9,648	11,405	14,102	100.1	118.3	146.3	19.7%
Dabur	51,672	59,628	69,055	18.8%	17.0%	17.3%	17.6%	17.0%	6,507	7,935	9,560	3.7	4.6	5.5	18.7%
Colgate	26,739	31,276	36,130	16.3%	21.9%	22.5%	22.7%	16.5%	4,449	5,244	6,072	32.7	38.6	44.7	14.5%
Marico	39,243	45,905	53,600	19.4%	12.2%	12.5%	12.9%	18.8%	3,108	3,853	4,863	5.1	6.3	7.9	21.9%
Jyothy Labs	11,675	13,754	15,678	36.0%	9.7%	12.9%	12.8%	39.7%	452	1,000	1,212	5.6	12.4	15.0	20.5%
GCPL*	45,720	55,298	64,165	20.5%	17.9%	18.3%	18.6%	16.8%	5,781	7,159	8,828	17.7	22.0	27.3	22.3%
GSK Consumers*	27,098	31,933	36,721	16.6%	17.0%	17.5%	18.3%	10.7%	3,619	4,350	5,116	86.0	102.5	120.0	19.5%
Emami Ltd*	15,210	18,071	21,526	17.4%	19.6%	20.3%	21.1%	12.9%	2,702	3,251	3,905	17.9	21.5	25.8	20.2%
Britannia Ind.*	53,367	63,473	74,274	17.1%	5.8%	6.2%	6.5%	17.0%	1,906	2,423	3,260	16.0	20.3	27.3	39.3%

*Source: PINC Research, Company   * Bloomberg Consensus   # Dec. ending company*

Exhibit 2 - Valuation Summary

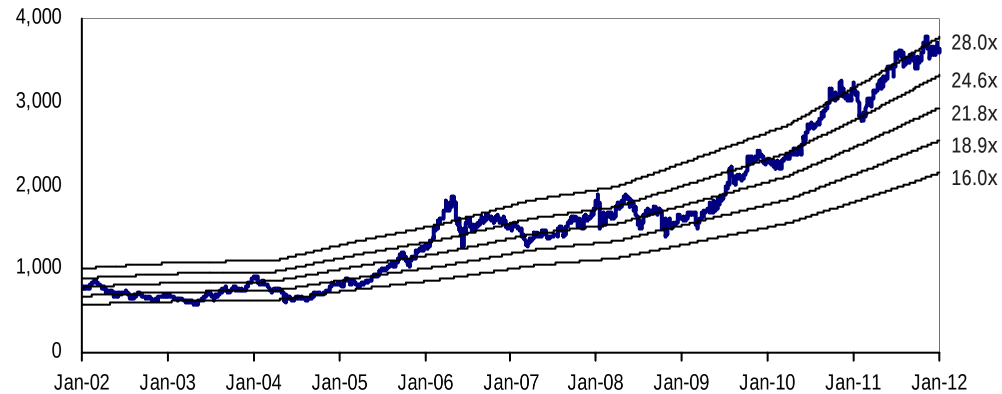
Companies	Mkt. Cap (Rs bn)	CMP (Rs)	Reco	TP (Rs)	O/S Shares (mn)	EV/Sales (x)			EV/EBITDA (x)			P/E (x)			ROE		
						FY12E	FY13E	FY14E	FY12E	FY13E	FY14E	FY12E	FY13E	FY14E	FY12E	FY13E	FY14E
ITC	1,563	202	BUY	233	7,738	5.6	4.7	4.0	16.2	13.6	11.6	25.2	21.5	18.6	31.4%	30.8%	30.0%
HUL	857	397	REDUCE	371	2,160	3.6	3.1	2.7	25.1	21.3	18.2	34.0	29.3	25.2	75.4%	73.0%	73.3%
Nestle #	399	4,143	SELL	3,618	96	5.2	4.3	3.4	26.5	21.9	17.8	41.4	35.0	28.3	80.3%	70.8%	66.6%
Dabur	172	99	ACCUMULATE	109	1,741	3.3	2.9	2.4	19.7	16.5	13.7	26.5	21.7	18.0	35.4%	32.7%	30.1%
Colgate	133	981	REDUCE	937	136	4.8	4.0	3.5	21.8	18.0	15.2	30.0	25.4	22.0	103.2%	102.8%	97.3%
Marico	93	151	REDUCE	144	614	2.5	2.0	1.7	20.1	16.3	13.1	29.8	24.1	19.1	26.7%	26.2%	26.2%
Jyothy Labs	13	160	BUY	212	81	1.5	1.2	1.0	15.7	9.5	8.0	28.6	12.9	10.6	8.5%	16.9%	17.9%
GCPL*	126	384	na	na	327	3.2	2.7	2.3	18.1	14.7	12.4	21.7	17.5	14.1	25.1%	23.7%	22.6%
GSK Consumers*	105	2,491	na	na	42	3.5	3.0	2.6	20.5	16.9	14.1	29.0	24.3	20.8	32.1%	32.0%	31.2%
Emami Ltd*	50	330	na	na	151	3.6	3.0	2.5	18.2	14.8	11.9	18.4	15.3	12.8	25.4%	23.4%	21.9%
Britannia Ind.*	53	441	na	na	119	1.1	0.9	0.8	19.2	15.2	12.5	27.6	21.7	16.2	36.9%	31.9%	30.1%

*Source: PINC Research, Company   * Bloomberg Consensus   # Dec. ending company*

SECTOR VALUATION

Exhibit 3 - FMCG Sector Rolling P/E

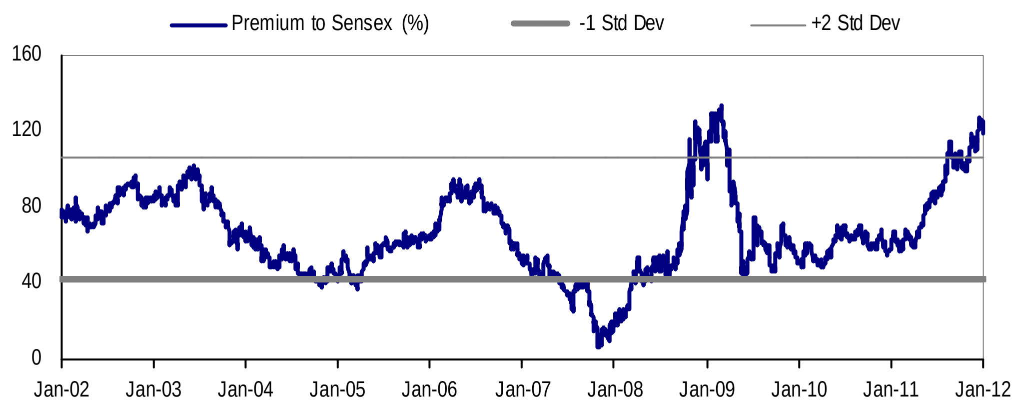
FMCG sector is trading at ~27x P/E (12-month forward earnings) which is the highest in the past 5 years…



Source: PINC Research, Bloomberg

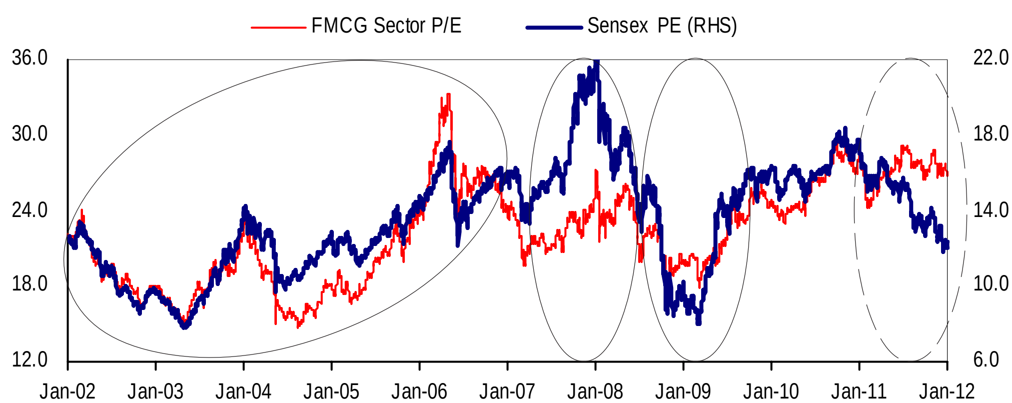
Exhibit 4 - FMCG Sector P/E Premium over BSE Sensex

FMCG sector P/E is at ~118% premium to the Sensex P/E, this is close to the +2 standard deviation of the past 10 years…



Source: PINC Research, Bloomberg

Exhibit 5 - FMCG and BSE Sensex Valuation



Source: PINC Research, Bloomberg

PHASE-WISE FMCG SECTOR VALUATION

2001 to 2006

During this phase, valuations of both FMCG sector and Sensex moved in line and the average FMCG premium over Sensex was at ~70%.

2007

FMCG sector underperformed to the Sensex during 2007 and that reduced the FMCG valuations premium to an average level of ~36%. This premium was lowest in the past 10 years.

2008

Global financial crisis impacted the whole world economy during this period. India's stock market also tempered down and valuations corrected significantly. FMCG sector valuations also corrected however, relative caution was there and valuation fall was lower than the Sensex. FMCG valuations premium slightly expanded to ~56% as compared to 36% in 2007.

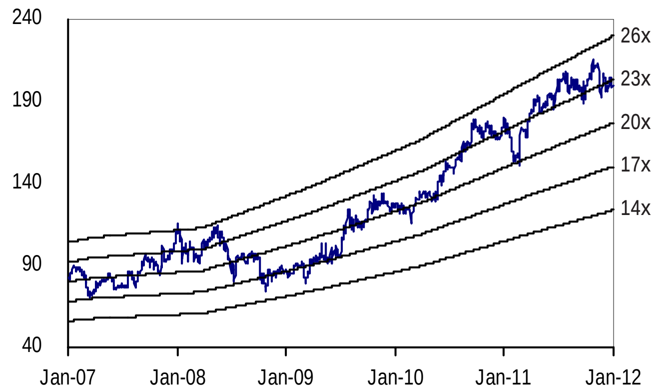
2009 and 2010

During these two years, valuations of both FMCG sector and Sensex moved in line and the average FMCG premium over Sensex was at ~65%.

2011

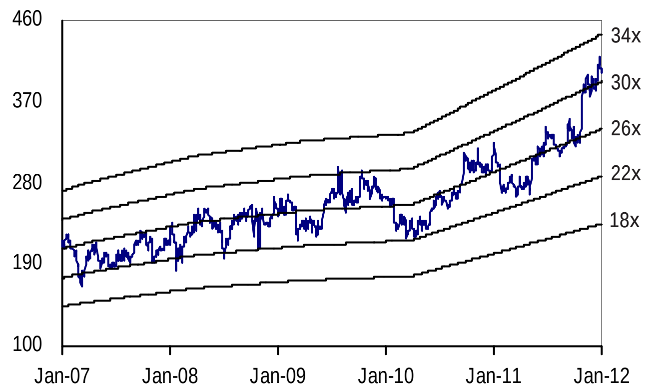
This is a unique situation wherein FMCG sector and Sensex valuations moved in opposite direction and resulted into a high valuation premium for the FMCG sector. Investors' strong preference to the FMCG sector and substantial decline in other sector's valuation has created this situation. FMCG sector trades at ~27x P/E on 12-month forward earnings which is ~13% higher than its past 5 years median P/E. FMCG sector valuations are at 118% premium over BSE-Sensex (above +2 standard deviation) as compared to 5 year average premium of 70%. We believe FMCG valuations are very expensive and going forward growth in net earnings would play a key role in stocks' performance.

Exhibit 6 - ITC 1-Year forward P/E Band



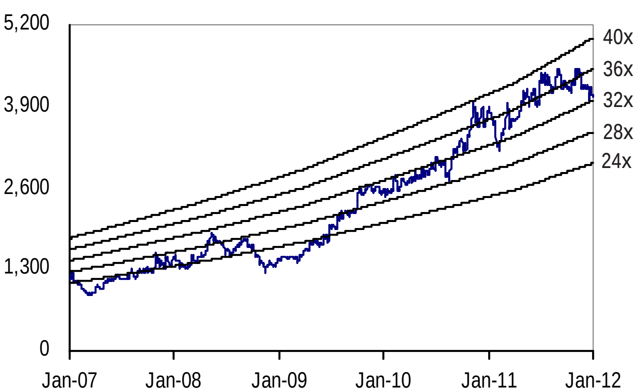
Source: PINC Research, Bloomberg

Exhibit 7 - HUL 1-Year forward P/E Band



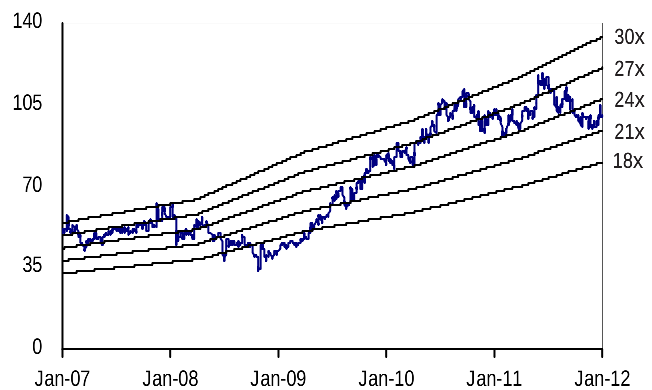
Source: PINC Research, Bloomberg

Exhibit 8 - Nestle India 1-Year forward P/E Band



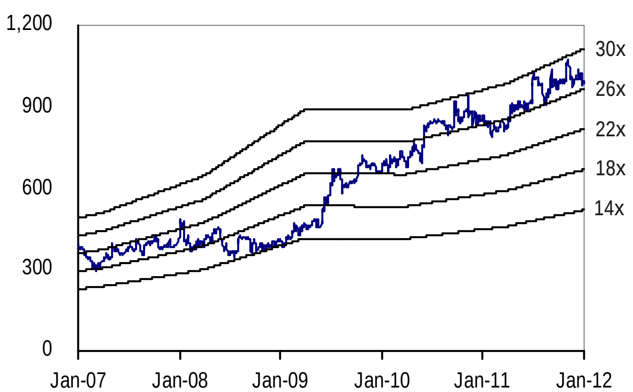
Source: PINC Research, Bloomberg

Exhibit 9 - Dabur 1-Year forward P/E Band



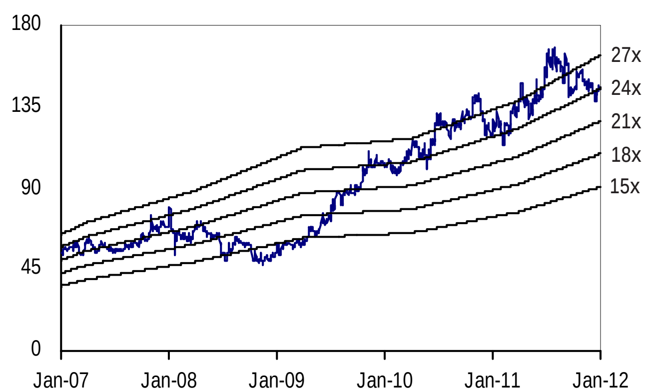
Source: PINC Research, Bloomberg

Exhibit 10 - Colgate Rolling 1-Year forward P/E Band



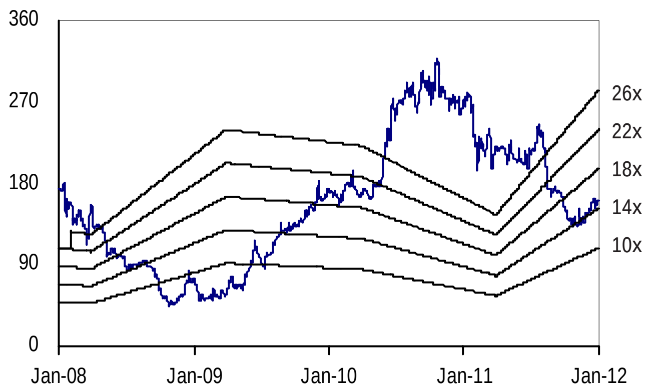
Source: PINC Research, Bloomberg

Exhibit 11 - Marico Rolling 1-Year forward P/E Band



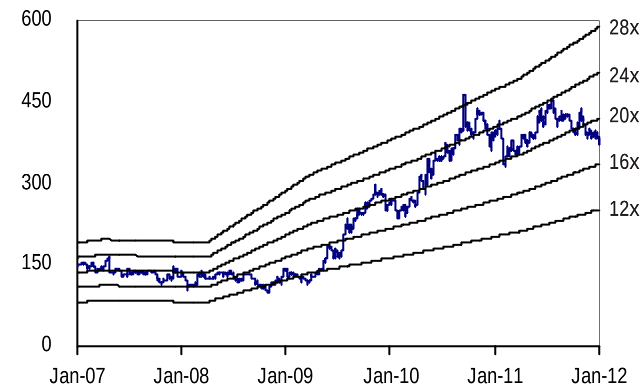
Source: PINC Research, Bloomberg

Exhibit 12 - Jyothy Labs 1-Year forward P/E Band



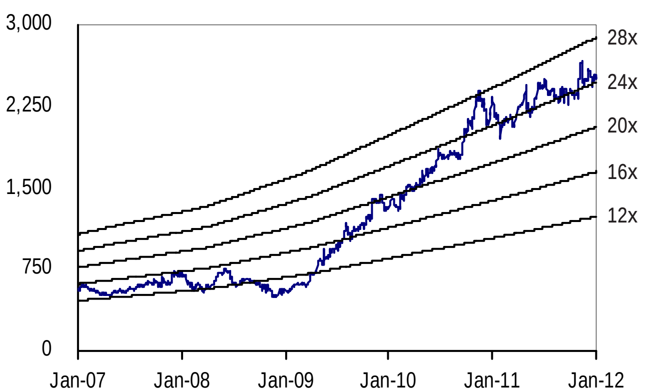
Source: PINC Research, Bloomberg

Exhibit 13 - Godrej Cons. 1-Year forward P/E Band



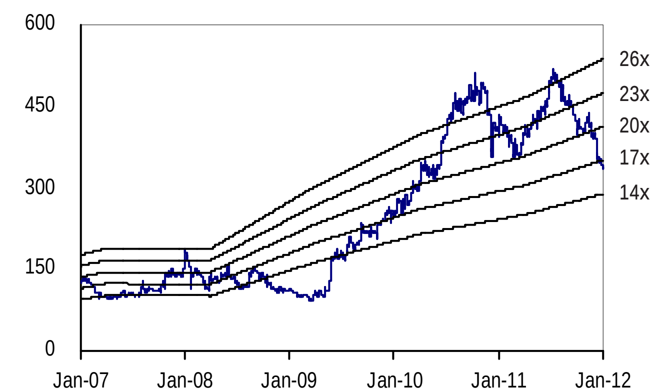
Source: PINC Research, Bloomberg

Exhibit 14 - GSK Consumer 1-Year forward P/E Band



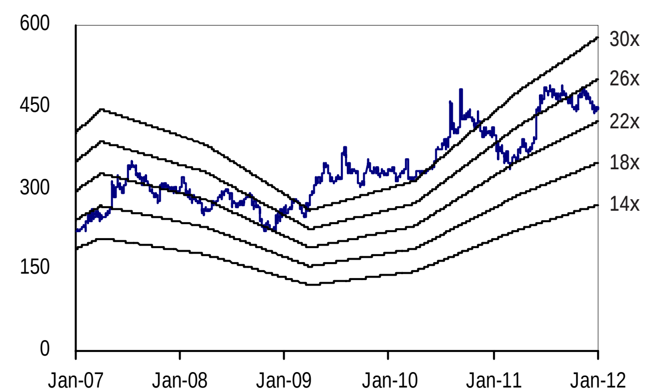
Source: PINC Research, Bloomberg

Exhibit 15 - Emami 1-Year forward P/E Band



Source: PINC Research, Bloomberg

Exhibit 16 - Britannia 1-Year forward P/E Band



Source: PINC Research, Bloomberg

SECTOR DESCRIPTION

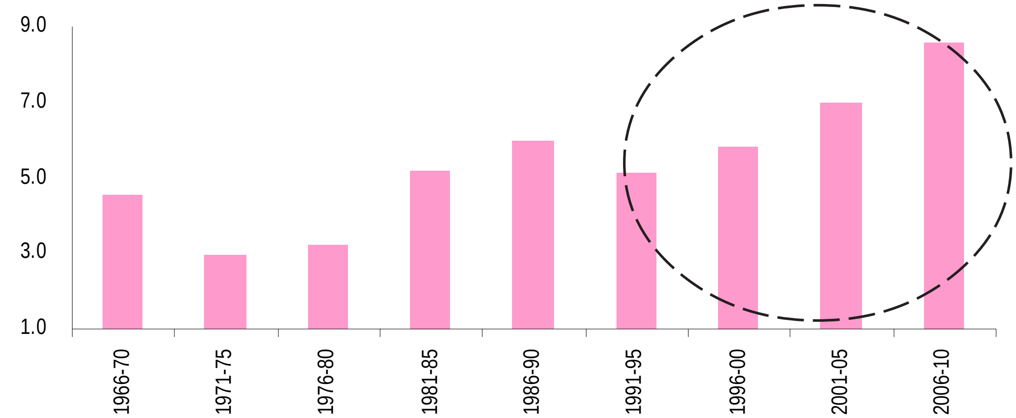
Domestic Market - growth sustainable for long period

India's last 5 years were very significant as the GDP growth achieved highest levels of the last 5 decades. Last 5 years' average GDP growth was at ~8.6% as compared to ~5.5% GDP growth in the last 5 decades.

We observed that India's key states Maharashtra, UP, AP, TN, West Bengal and Gujarat have contributed well towards India's robust growth. These 6 states contribute more than 50% of the Indian GDP and grew by >13% in the past 5 years.

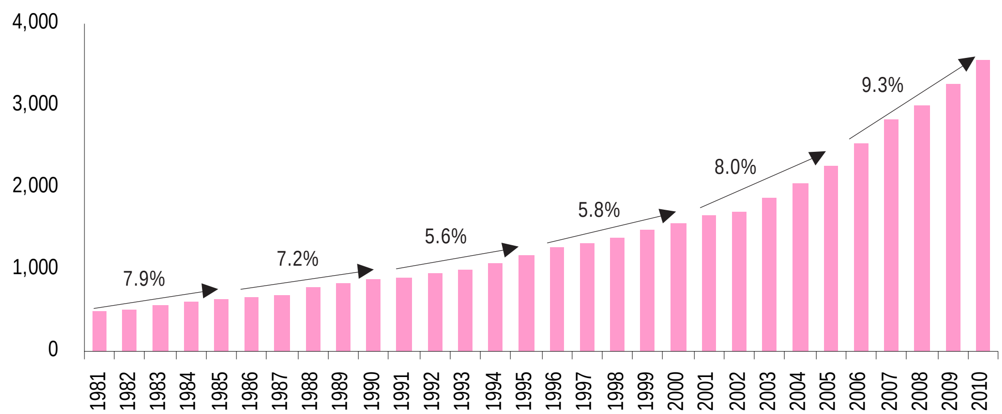
The strong growth across states had helped FMCG companies to deliver >15% growth in the past 5 years. We are positive on the sustainability of strong domestic FMCG growth for long period on account of rise in urban and rural disposable income, credit easing and low per capita consumption & lower penetration level of several categories.

Exhibit 17 - Average GDP growth in past 5 years was highest in past 5 decade



Source: PINC Research, World Bank Data

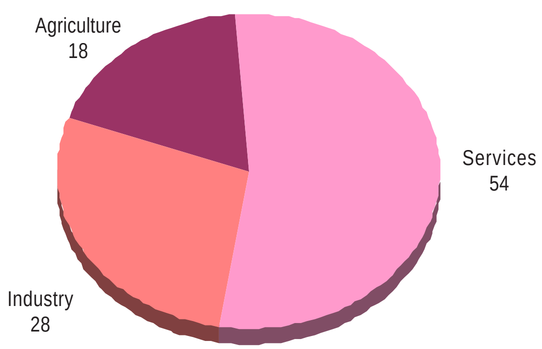
Exhibit 18 - Per Capita GDP - PPP (current international US$)



Source: PINC Research, World Bank Data

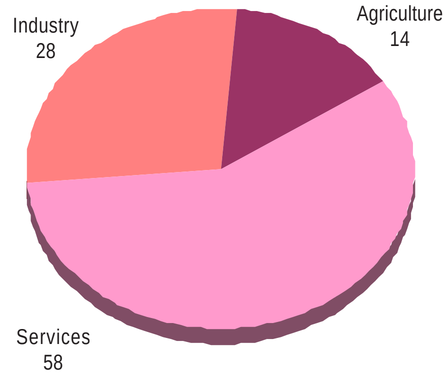
Agriculture provides >50% of the employment although its contribution to the GDP is mere ~14%.

Exhibit 19 - GDP Mix in 2005-06 (%)



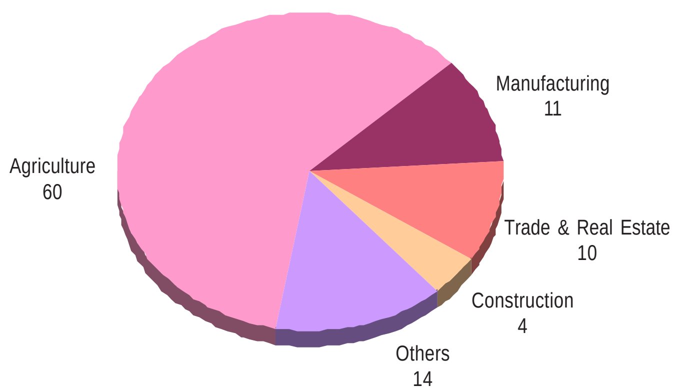
Source: CSO Note: At constant (2004-05) Prices

Exhibit 20 - GDP Mix in 2010-11 (RE) (%)



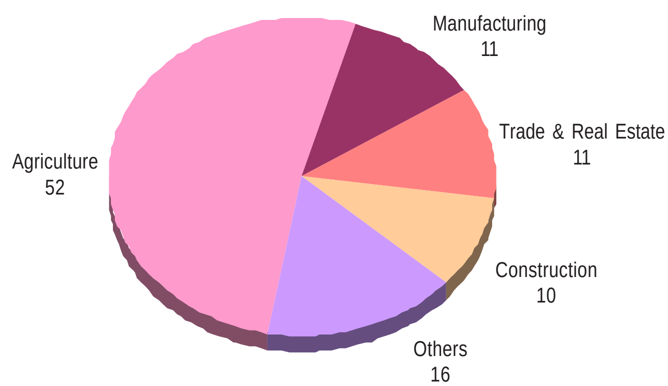
Source: CSO Note: At constant (2004-05) Prices

Exhibit 21 - Sectoral Employment Mix in 2000 (%)



Source: CSO

Exhibit 22 - Sectoral Employment Mix in 2010 (%)

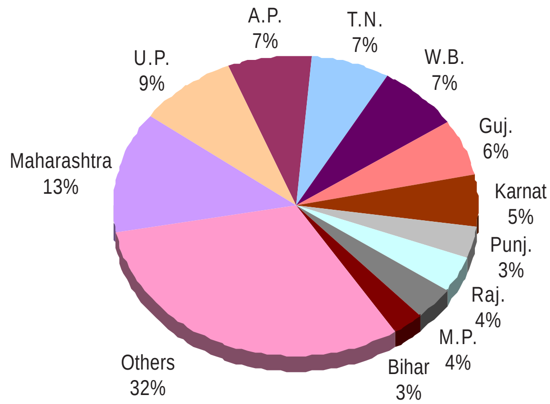


Source: CSO

Exhibit 23 - GDP Growth at Constant (2004-05) Prices

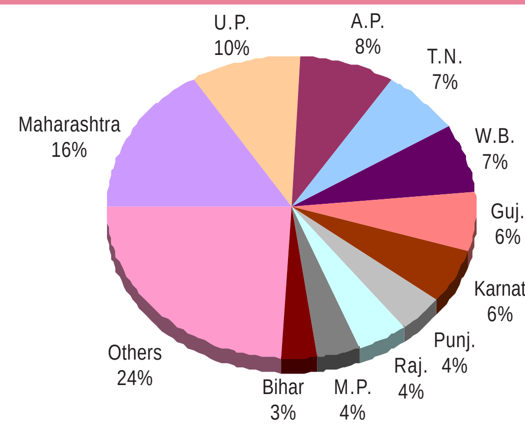
Source: CSO

Exhibit 24 - Mix of Net State Domestic Product (2005)



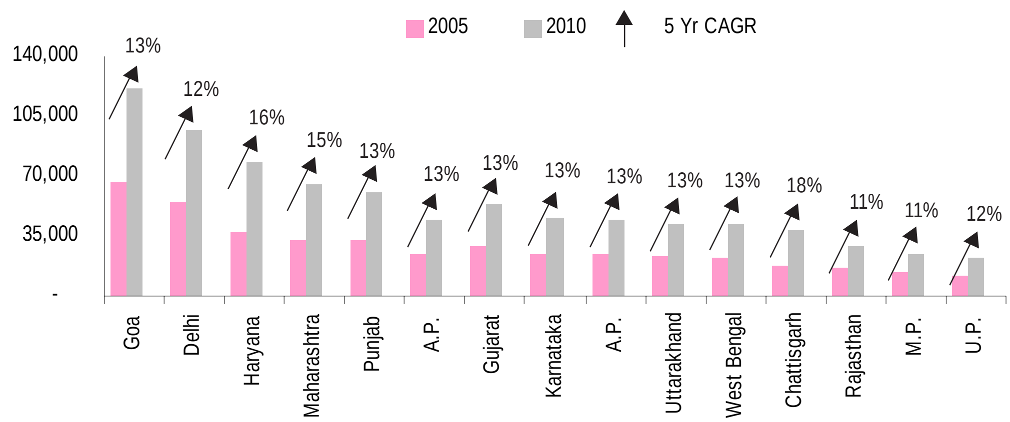
Source: PINC Research, Economic Survey 2011

Exhibit 25 - Mix of Net State Domestic Product (2010)



Source: PINC Research, Economic Survey 2011

Exhibit 26 - Per Capita Net State Domestic Product At Current Prices (Rs)



Source: PINC Research, Economic Survey 2011

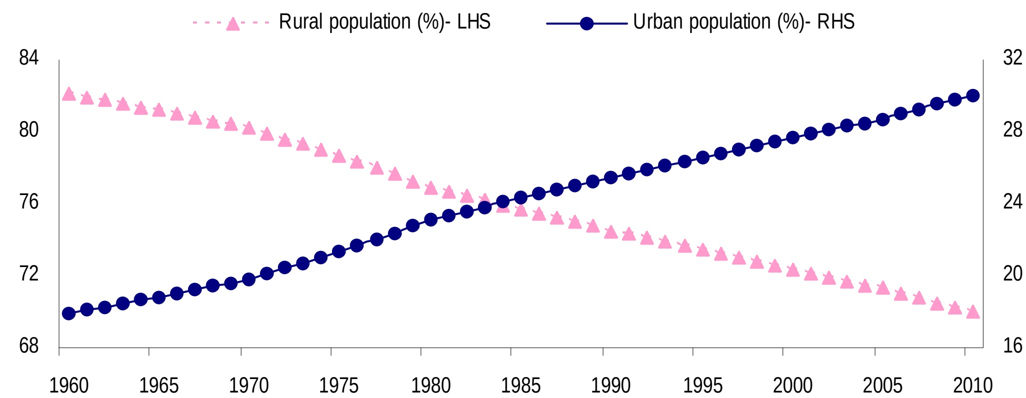
Urban India and FMCG - growth through premiumisation

Higher urban population mix supporting demand

Rising urban population is supporting urban demand for FMCG companies. Urban population mix was 18% in 1960 which increased to 28% in 2000 and then reached to 30% in 2010. The shift in the urban: rural mix has positively changed the dynamics for FMCG companies.

Apart from change in population mix, the urban income distribution has also favourably changed over a period of time. Upper class in the urban income group has increased to ~36% as compared to 17% and 7% in 2002 and 1996 respectively.

Exhibit 27 - Change in Rural: Urban Mix (%)



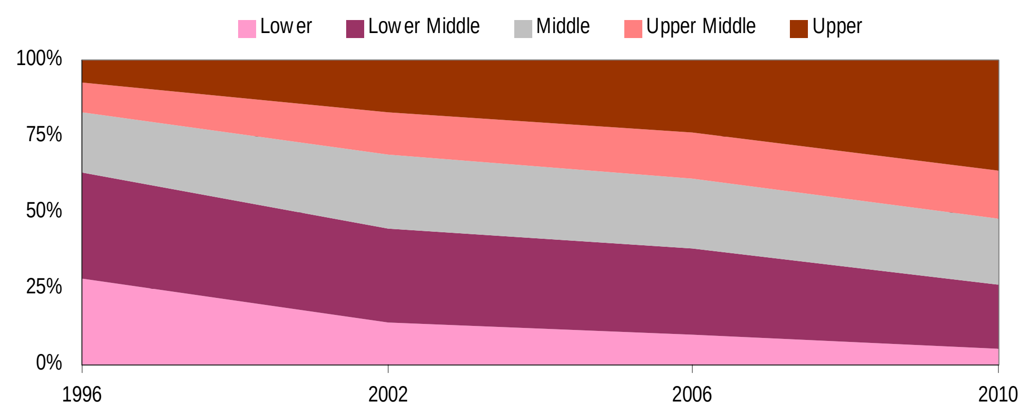
Source: PINC Research, World Bank

Growth through premiumisation

Rise in urban population couple with improvement in urban income mix is positive for FMCG companies. Urban market has higher appetite for premiumisation. Apart from the better value growth in the urban market, FMCG companies also enjoy launching innovative premium products.

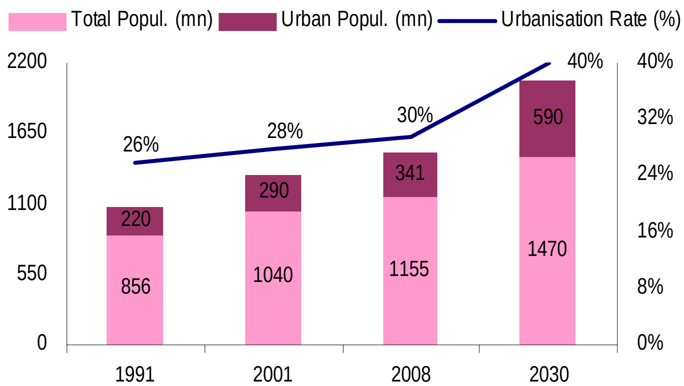
Upper class contributes >36% as compared to ~17% in 2002 and ~7% in 1996…

Exhibit 28 - Urban Income Distribution (%)



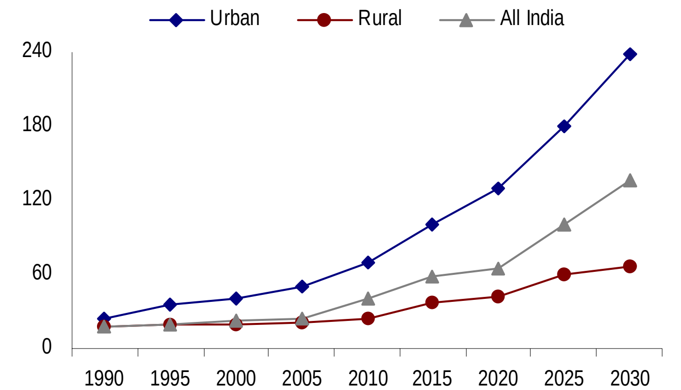
Source: PINC Research, NCAER

Exhibit 29 - Higher Urbanisation is Expected



Source: McKinsey Global Institute Analysis

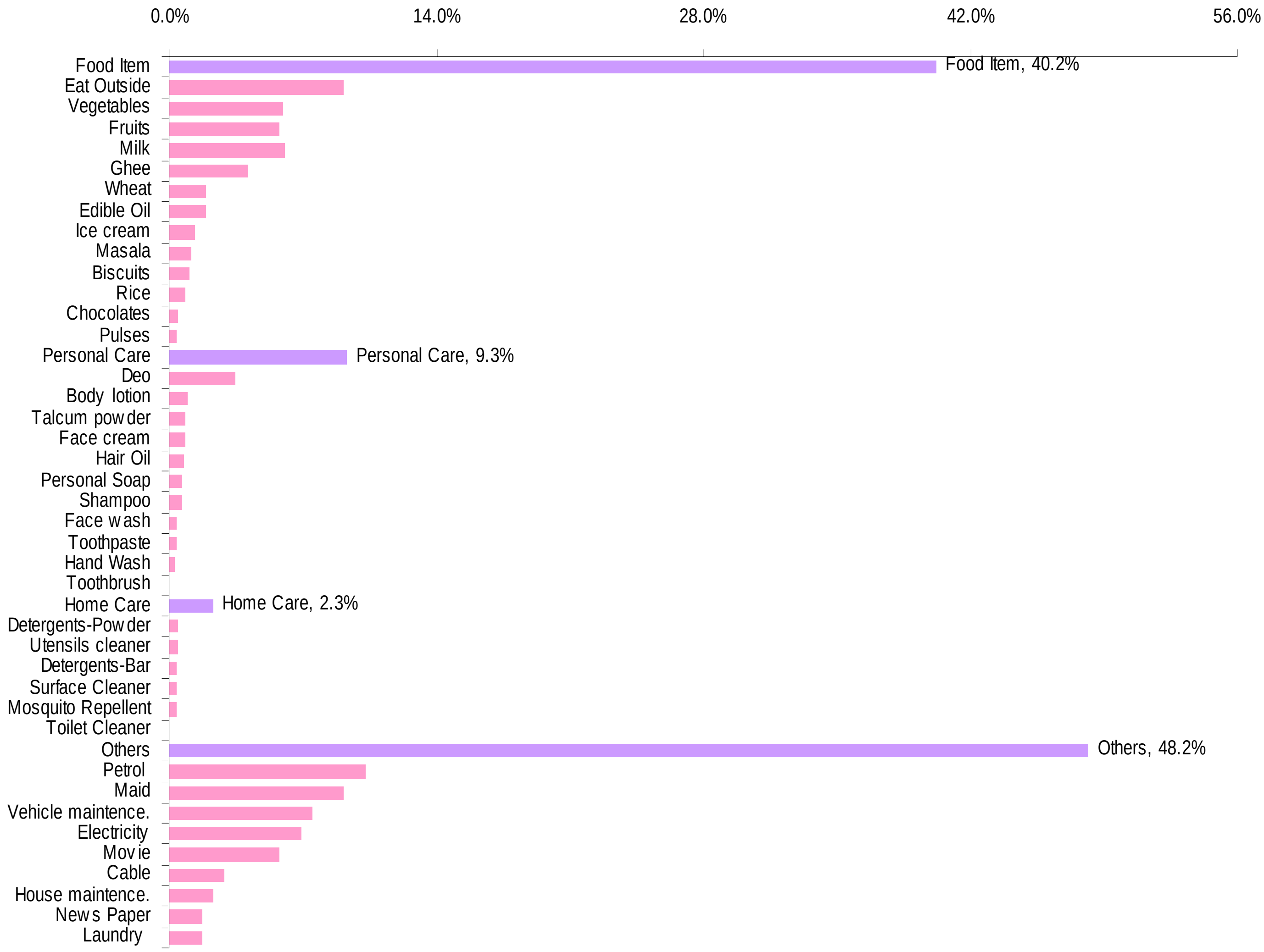
Exhibit 30 - Per Capita Disposable Income (Rs 000)



Source: McKinsey Global Institute Analysis

Spending Pattern - Optimism for Personal Care

Exhibit 31 - Typical Urban Middle Class Monthly Spending Mix



Source: PINC Research

We analysed few urban middle class families to understand the broader mix of monthly spending. In this analysis, we exclude spending on apparels as we found spending on apparels has wide variation even among the same income and age group. We also exclude items like rents and EMIs for our analysis as these do not serve our purpose for this analysis.

Through this analysis, we want to emphasise the broader spending pattern of the consumers rather than the close pattern. We found, although personal care and home care products are expensive but their weightage in the monthly spending is very low. Therefore, we expect substantial scope of value growth for the personal care segment. Home care is dominated by the unorganised players therefore shift from unbranded to branded products would create growth potential for FMCG companies.

Consumer, for the personal care products, needs quality and the 'value for money' concept is relatively less applicable for it. FMCG companies can tap this opportunity through regularly launching innovative and better products. We assumed that personal care mix should be higher for upper class while lower class will spend more on the food items. Our focus was on the middle class, as it covers the largest consumer base for FMCG companies.

Rural India and FMCG - price sensitivity is high

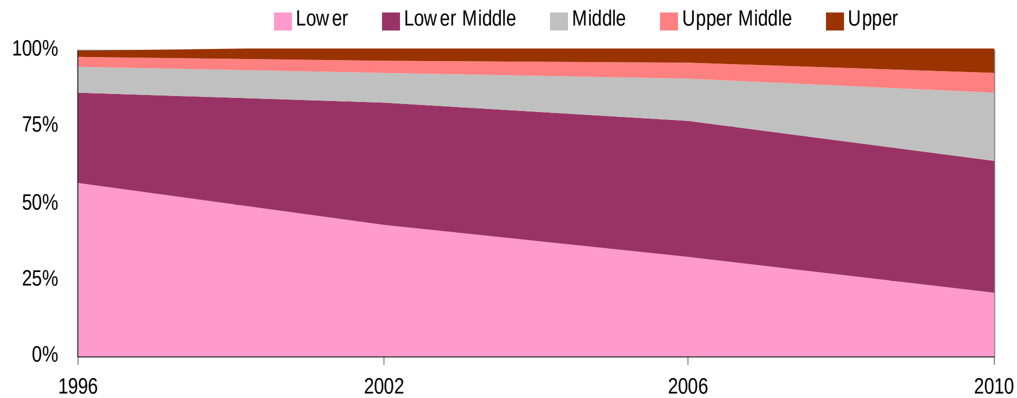
Improvement in rural income mix

The rapid changes in the rural India have improved the ways of generating income. With a huge population base the improvement in the rural income has opened several gates for the FMCG companies. In the last 5 years, rural India has outperformed the overall FMCG growth and providing significant volume growth to the FMCG companies. During the same period, Rural market displayed ~15% growth compared to ~12% growth in the urban market.

We observed a sharp change in the rural income mix in the past 15 years. Lower class had >50% share of the rural India in 1996 which has lowered down to ~21% in 2010. High income growth has shifted lower class people into lower middle class and middle class. This resulted into 1,400bps and 1,300bps expansion in lower middle class and middle class mix in the past 15 years.

Higher rural income has improved the middle class mix to ~22% in 2010 from ~10% in 2002…

Exhibit 32 - Rural Income Distribution



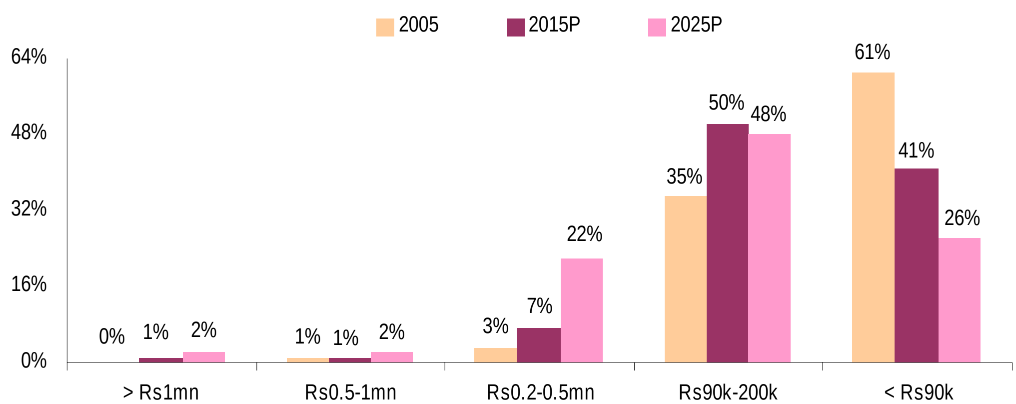
Source: PINC Research, NCAER

Promising rural income level

The dynamics for rural India has changed favourably for FMCG companies and will benefit for long period. As per the 'CII and Euromonitor' (source: Businessworld Marketing Whitebook 2011-12), ~50% of the rural population will come under Rs90k-200k annual income range by 2015 which was at ~35% in 2005. This rise in annual income will favourably improve the lower middle class and middle class mix going forward. The change in the rural income mix will help FMCG companies in maintaining the volume growth for long period.

~50% of the rural population will come under Rs90k-200k range by 2015…

Exhibit 33 - Promising Annual Rural Income Levels



Source: PINC Research, Businessworld Marketing Whitebook 2011-12

Govt. spending continue to support rural reforms

Rural India's face change was also because of government's initiative to spend through many rural development schemes. In the last four years, government spending in these schemes has increased by more than 3x. These initiatives have several direct and indirect benefits for the rural development. Bharat Nirman, NREGA and Sarva Shiksha Abhiyan are the key schemes for these spending. We believe the buoyancy in the rural economy is sustainable.

Govt. spending for rural reforms has increased by 3x in the last four years…

Exhibit 34 - Rural Reforms Through Higher Spending in Major Govt. Schemes

Budget Allocation to Major Schemes (Rs bn)	2007-08	2008-09	2009-10	2010-11	2011-12*
Bharat Nirman	-	313	454	480	580
Mahatma Gandhi NREGS	120	160	391	401	400
Pradhan Mantri Gram Sadak Yojana (PMGSY)	65	75	120	120	200
Indira Awaas Yojana (Rural Housing)	40	54	88	100	100
Sarva Shiksha Abhiyan (SSA)	107	131	131	150	210
National Rural Health Mission (NRHM)	110	119	139	154	178
Highways	117	107	116	167	133
NHDP / NHAI	65	70	86	95	103
National Programme of Mid Day Meals in Schools	73	80	80	94	104
Integrated Child Development Services	-	63	67	87	103
National Rural Drinking Water Programme	65	73	80	90	94
IIFCL Cum. Disbursement target	-	-	90	200	250
Swaranjayanti Gram Swarozgar Yojana	18	22	24	30	29
Rural Sanitation	11	12	12	16	17
Integrated Watershed Management Programme	11	18	19	25	25
For Health Sector	-	37	44	56	57
Rashtriya Krishi Vikas Yojana	-	-	-	-	78
Total Outlay	802	1,334	1,941	2,265	2,661
YoY Gr%		66%	46%	17%	17%
Credit support to farmers	0	2,870	3,250	3,750	4,750
Interest Subvention to farmers	0	0	1%	2%	3%

*Source: PINC Research, Union Budget 2011, * Budget estimates*

Benefits of these schemes will come gradually and will be effective for long period…

MSP growth and higher crop yield boost the farm income

Robust MSP growth and higher crop yield in the past 5 years were the key reasons for the change in rural income distribution. MSP growth during the past 5 years (2006-11) for Wheat, Paddy, Cotton, Maize and Arhar were 11%, 13%, 11%, 13% and 18% respectively compared to 1%, 2%, 2%, 4% and 3% during 2000-05.

MSP rates for Kharif crop for 2011-12 was slightly lower than the past 5 years CAGR. However, MSP rates for the Rabi crop for 2011-12 is encouraging as MSP rates for most of the crops are ahead of the past 5 year CAGR.

Robust MSP growth in the past 5 years raised the rural income significantly…

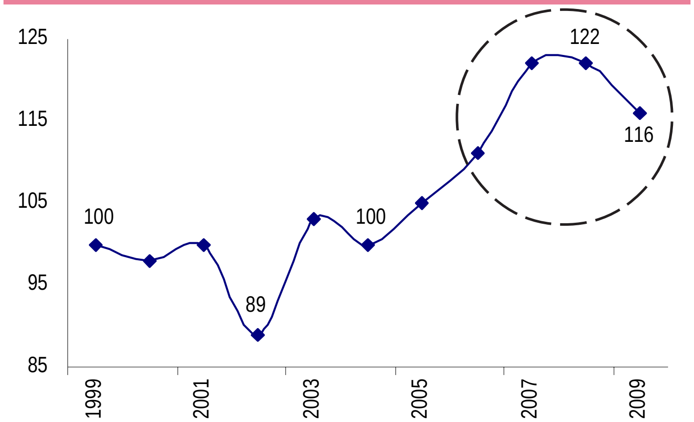
Strong growth in Rabi crops for 2011-12…

Exhibit 35 - Strong MSP Rates Boost the Farm Income

(Rs/quintal)	2011-12	YoY Gr.	CAGR 2000-05	CAGR 2006-11
Kharif Crops				
Paddy (Grade A)	1,110	8%	2%	13%
Jowar (Hybrid)	980	11%	3%	13%
Bajra	980	11%	3%	13%
Maize	980	11%	4%	13%
Ragi	1,050	9%	3%	14%
Arhar (Tur)	3,200	7%	3%	18%
Moong	3,500	10%	5%	18%
Urad	3,300	14%	5%	17%
Cotton (H-4)	3,300	10%	2%	11%
Groundnut in shell	2,700	17%	4%	12%
Sunflower seed	2,800	19%	5%	13%
Soybean (Yellow)	1,690	17%	3%	11%
Sesamum	3,400	17%	4%	17%
Niger seed	2,900	18%	0%	19%
Rabi Crops				
Wheat	1,285	15%	1%	11%
Barley	980	26%	2%	12%
Gram	2,800	33%	5%	14%
Masur (Lentil)	2,800	24%	3%	13%
Rapeseed/Mustard	2,500	35%	7%	8%
Safflower	2,500	39%	5%	10%
Toria	2,425	40%	8%	0%
Other Crops				
Copra (Ball)	4,775	2%	2%	4%
Dehusked coconut	1,200	0%	na	na
Jute	1,600	0%	3%	10%
Sugarcane	139	29%	6%	12%

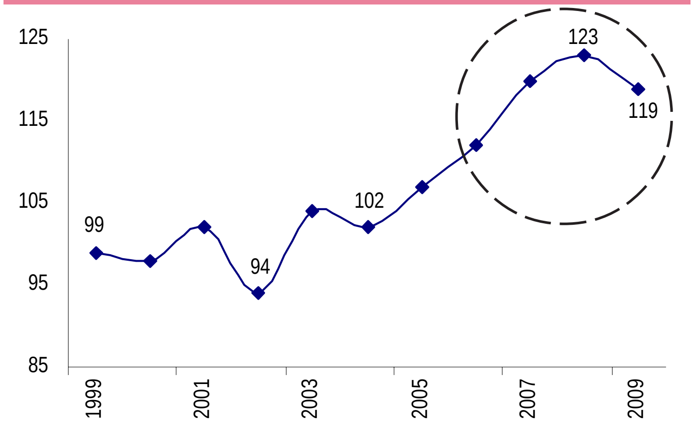
Source: PINC Research, Press Information Bureau

Exhibit 36 - Crop Production Index (1999 as base)



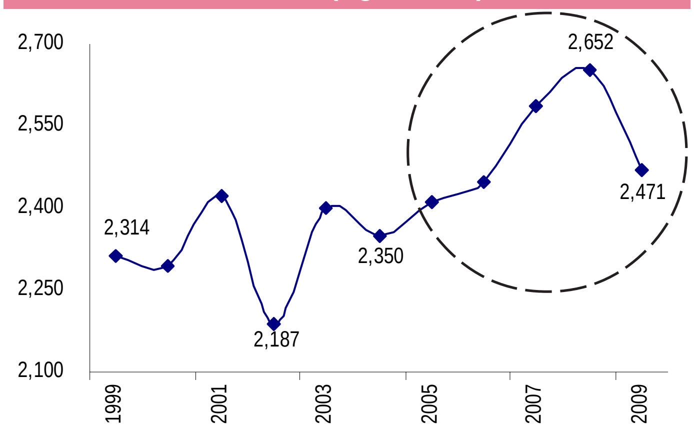
Source: PINC Research, World Bank

Exhibit 37 - Food Production Index (1999 as base)



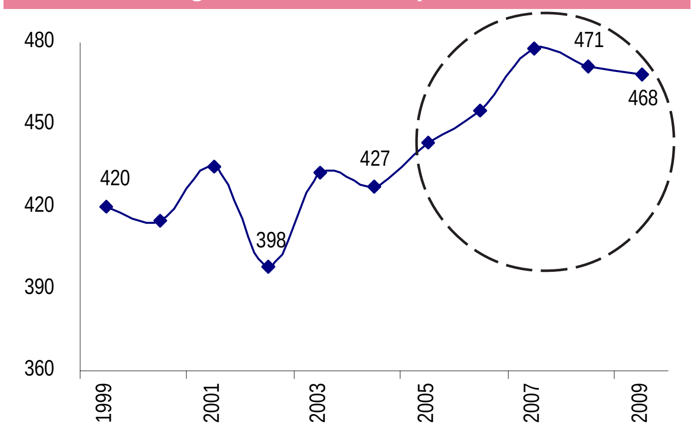
Source: PINC Research, World Bank

Exhibit 38 - Cereal Yield (Kg/hectare)



Source: PINC Research, World Bank

Exhibit 39 - Agric. value added per worker



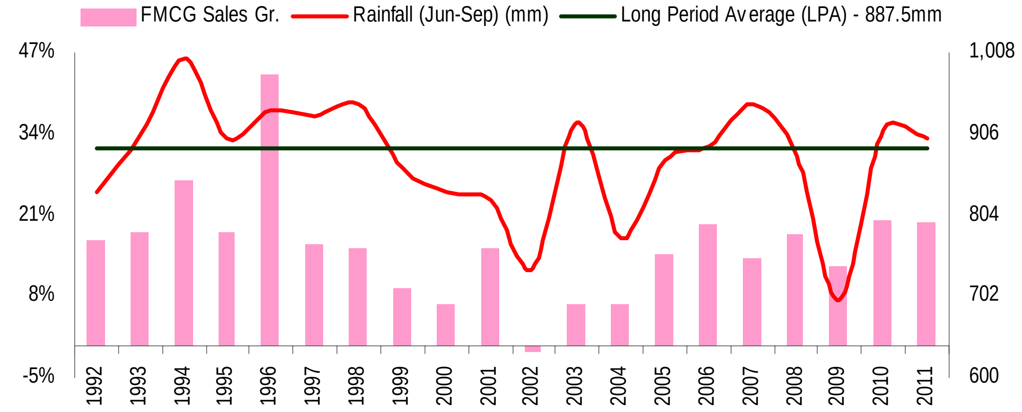
Source: PINC Research, World Bank *Note: Constant 2000 US$*

Low Dependence on Monsoon

Monsoon is one of the key indicators for farm income but better irrigation facilities, higher MSP rates and higher farming related educational programme has reduced the overdependence on Monsoon. Rural income is now less dependent on farming owing to generation of non-agriculture income sources and migration from rural to urban areas.

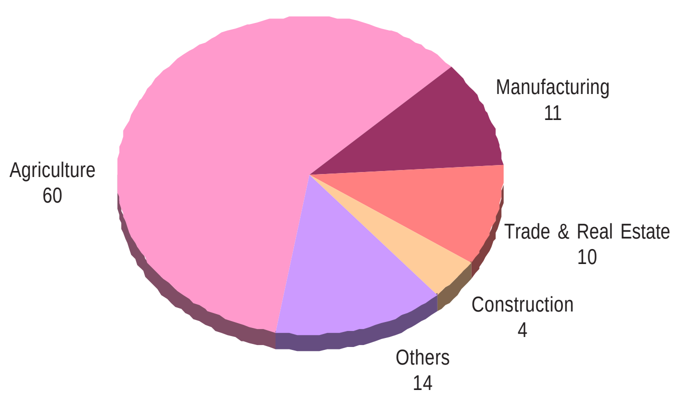
India's dependence on Agriculture has been reducing gradually over the last several years. Agriculture's contribution in GDP and Employment generation has declined to 14% and 52% as compared to 18% and 60% around 7-8 years back.

Exhibit 40 - Dependence on Monsoon has Reduced



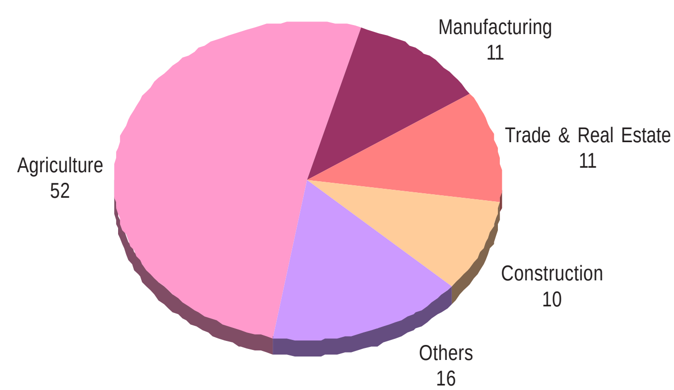
Source: PINC Research, IMD

Exhibit 41 - Sectoral Employment Mix in 2000 (%)



Source: CSO

Exhibit 42 - Sectoral Employment Mix in 2010 (%)



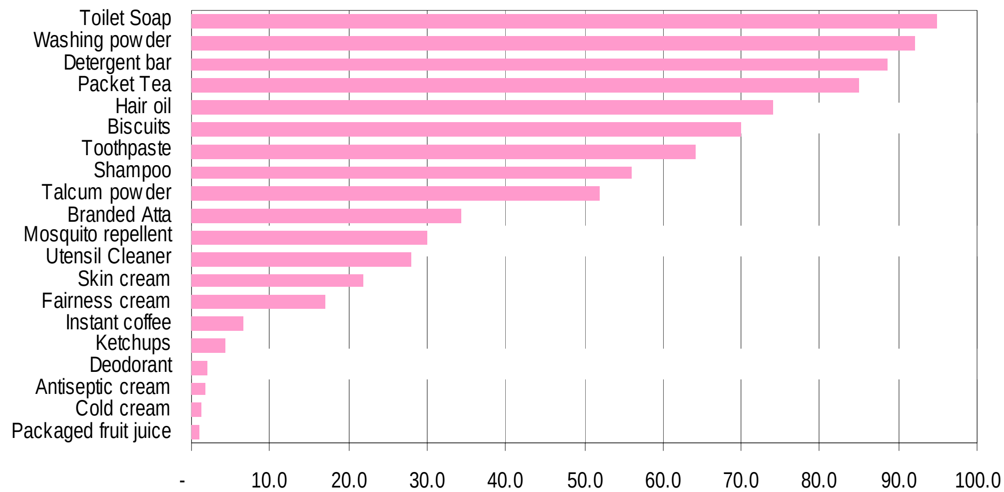
Source: CSO

Opportunities in Low Penetration and Low Per Capita Consumption Categories

We see immense opportunities in several categories on account of low penetration level and low per capita consumption. Our observation suggests, despite having high penetration level, categories like detergent soap, personal soap and washing powder have low per capita consumption therefore change in the consumption pattern will drive these categories.

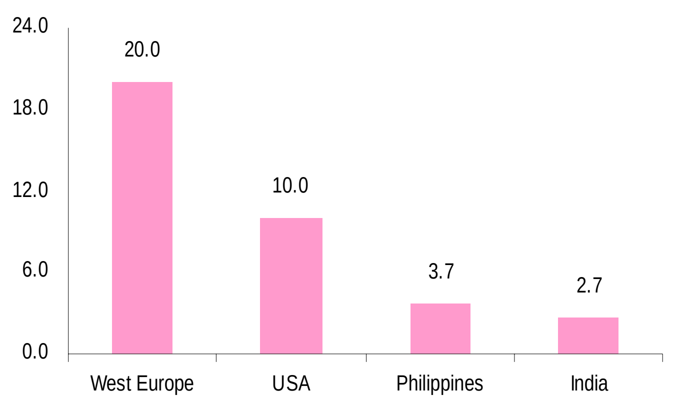
Apart from this, we found categories like oral care, shampoo, skin cream, deodorant and packaged juice etc where penetration level and per capita consumption both is low. Therefore, these categories have enormous opportunity to grow through addition in consumer base as well as change in the consumption pattern.

Exhibit 43 - Penetration level of key categories (%)



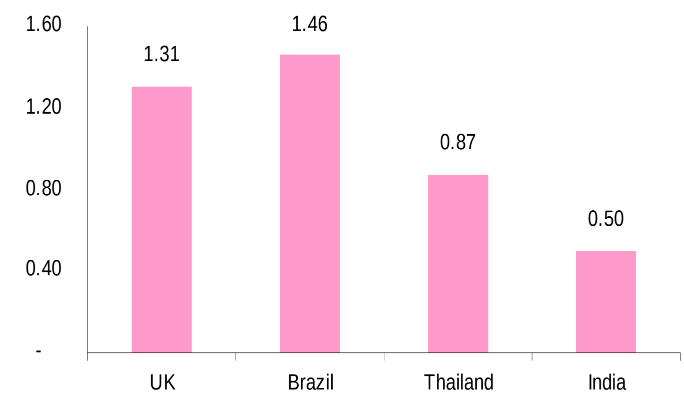
Source: PINC Research, Emami Annual Report 2011, Industry data

Exhibit 44 - Detergent per capita consumption (kg)



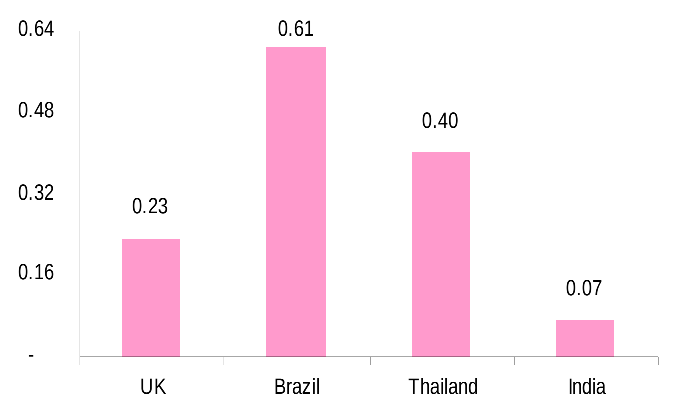
Source: PINC Research, IBEF

Exhibit 45 - Personal wash per capita consumption(kg)



Source: PINC Research, IBEF

Exhibit 46 - Toothpaste per capita consumption (kg)

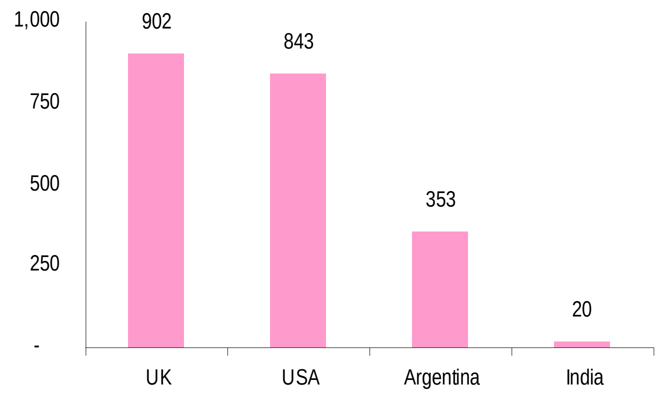


Source: PINC Research, IBEF

Exhibit 47 - Tea per capita consumption (kg)

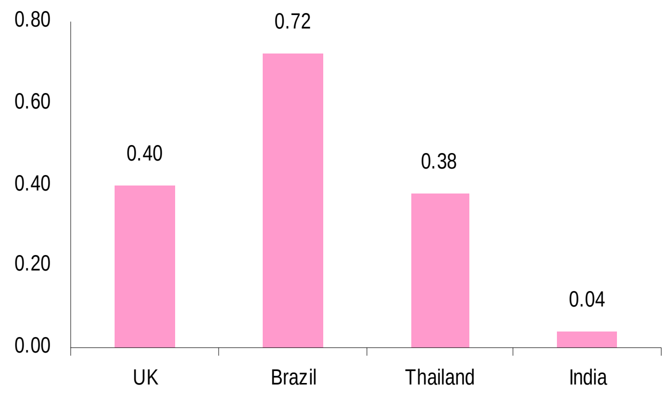
Source: PINC Research, IBEF

Exhibit 48 - Skin care per capita consumption (Rs)



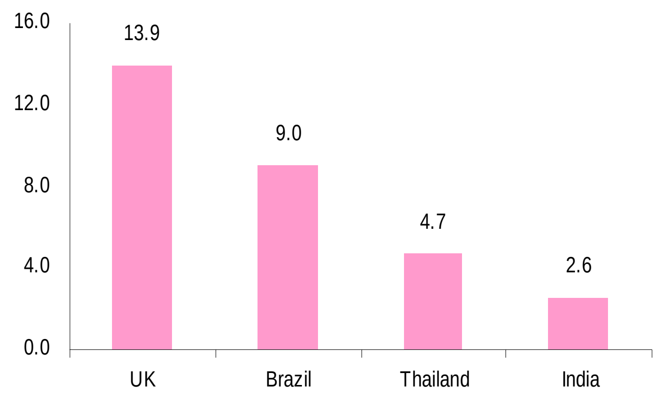
Source: PINC Research, IBEF

Exhibit 49 - Shampoo per capita consumption (Kg)



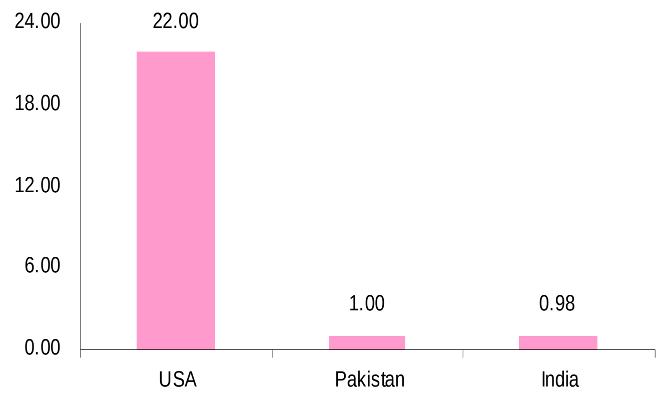
Source: PINC Research, IBEF

Exhibit 50 - Fabric wash per capita consumption (Kg)



Source: PINC Research, IBEF

Exhibit 51 - Ice cream per capita consumption (litre)



Source: PINC Research, IBEF

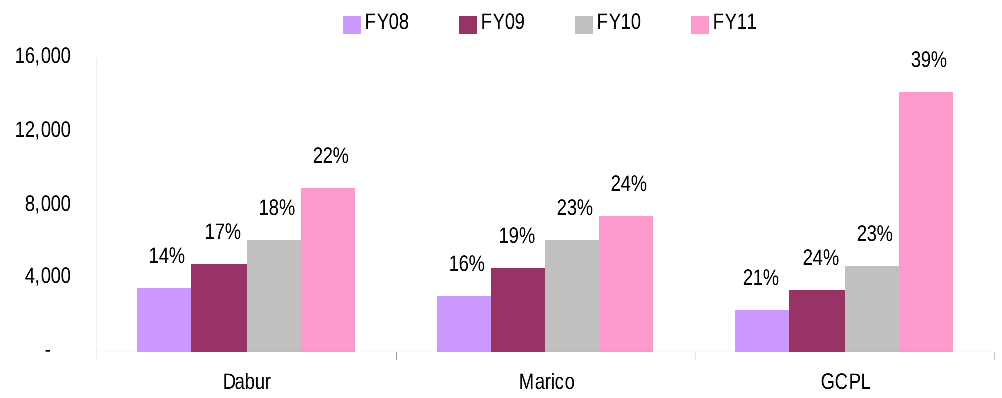
Overseas Market - Opportunities galore; near term margin pressure

Most of the domestic FMCG companies are enhancing their presence in the overseas market. We observed several acquisitions as well as capacity installation in the overseas market in the past three years. We see overseas market as an opportunity for long term however higher spending on brand building would exert pressure on EBITDA margin in the near term.

Reducing exposure of domestic competition

Most of the domestic FMCG companies are facing challenges through rising competition in the domestic market. Hence, entering into the overseas market provides newer opportunities for growth and provides diversification benefits to these companies.

Exhibit 52 - Overseas Sales (Rs mn) and Contribution in Total Sales (%)



Source: PINC Research, Bloomberg

Better opportunities for power brands

Most power brands facing volume pressure in the domestic market and overseas market can provide big opportunity for these brands. As these brands have already cleared all the testing levels now the incremental efforts would only be to market it well to the new consumers. This can change the life cycle of the brand which either is in stagnant or declining phases.

"Parachute is 2nd most trusted brand in Bangladesh across categories"

Acquisitions at low valuation

High valuations of domestic FMCG companies led to an opportunity to acquire in the overseas market. There are several markets which are not expensive as compared to Indian market although have similarity in the growth outlook.

Exhibit 53 - Few Strategic Deals in Overseas and India

Company	Acquired Company	Date of acquisition	Geography	Valuations (Acq. Cost/Sales)
Overseas				
Dabur	Hobi	Oct-10	Turkey	~2.6
Dabur	Namaste Lab	Jan-11	US	~1.2
GCPL	Megasari	May-10	Indonesia	~2.2
GCPL	Tura	Mar-10	Nigeria	~3.3
GCPL	Issue	May-10	Latin America	~1.5
GCPL	Keyline Brands Ltd	Oct-05	UK	~0.7
Wipro	Yardley, Business	Nov-09	London	~1.9
Wipro	Unza	2007	Singapore	~1.5
Marico	Derma Rx Asia Pacific Pte Ltd	May-10	Singapore	~1.0
Marico	Ingwe Brand	Aug-10	South Africa	~1.0
Marico	Code 10 brand from Colgate-Palmolove	Jan-10	Malaysia	~1.0
Marico	ICP	Feb-11	Vietnam	~1.4
Marico	Fiancee	Sep-06	Egypt	~1.8
India				
Reckitt Benckiser	Paras Pharma	Apr-11	Gujarat, India	~8.1
Dabur	FEM Care Pharma Ltd	Nov-08	Mumbai, India	~3.0
Dabur	Balsara India Group Companies	Jan-05	India	~0.7

Source: PINC Research, Company

Near term margin pressure expected

Most of the companies are in a mode to spend high on marketing expenses in the overseas market. These are new markets which require necessary investment on brand building. We believe this will provide long term benefits. Dabur and Marico have already expressed their intent and guided EBITDA margin pressure in the overseas market.

Who will win the game?

We believe companies with higher current in their RIVER (Range, Innovation, Value weightage, Engage and Reach) will lead the game.

Range- We believe the range of any brand in terms of coverage of price points and wide variety should be considered as a key trait. We have observed that many companies has benefited with this strategy specially launching at low price point. It not only provides high volume growth but it also helps in improving the margins (not in every case but largely).

Innovation- Innovation is the key for any industry and FMCG industry is not exception of that. Although, the innovations what we want to mention here are the consistent improvement in usability, product extension, packaging and quality.

Consumers' buying pattern shifting towards a concept of weightage in the monthly budget…

Value Weightage- The large part of Indian consumers' buying was depending on 'value for money' concept. However, we have observed gradual change in that concept. Now consumers have changed their buying process post the success of plastic money and modern trade. Consumer buys through a mathematical matrix that calculates each item's weightage in the monthly expense. The importance of brand plays a key role in choosing products. So in the urban market companies should focus more on the variety and quality.

Engage - There was a time when consumers used to stick with one brand for whole life and that case was largely with soaps, oral care, skin care and hair care categories. Our observation states that consumers' brand loyalty has been reducing over a period of time and consistent change in brands have been noticed. Now it is difficult for a consumer to stick with one brand for whole life.

Tries to engage with the company; if not with the brand…

In our opinion, companies should aggressively look at the change in customer profile and should try to give the required product to fulfill the new demand. So the consumer can be engaged with the company; if not with the brand through improvement in features, packing, quality and better schemes.

Reach- It is a proven fact that long term survival of any brand depends on its reach to the customers. Good companies consistently develop their distribution channel and always wait for the opportunities to come to challenge the competitor.

Exhibit 54 - FMCG Competitiveness through RIVER Analysis

Companies	Range	Innovation	Value Weightage	Engage	Reach	Total
HUL	+++	+++	+++	+++	+++	15+
ITC	++	++	+++	++	+++	12+
GCPL	+++	++	++	++	++	11+
Nestle	+++	++	+++	++	+++	13+
Dabur	++	++	+++	++	+++	12+
Colgate	+++	++	++	++	+++	12+
Marico	++	++	++	++	++	10+
Britannia	++	++	+++	++	++	11+
Emami	++	++	++	++	++	10+
Jyothy Labs	++	++	++	++	++	10+

Source: PINC Research
Note: (+) Points are based on competitive edge and ranges between 1-3 where 3 is for the most competitive

Significance of Power Brands - over dependence is risky

The over dependence on a brand or few brands can create trouble for the company in the long term. Here, we mention comparative analysis of dependence of power brands.

We classified the companies based on their profitability dependence on power brands.

High Dependence : Nestle, Marico and Jyothy Labs

Medium Dependence : Emami and Colgate

Low Dependence : HUL and Dabur

However, risk exposure would be higher for those companies where volume growth of power brand is slowing down. Parachute and Ujala Supreme is already growing at single digit and expectation is further muted for volume growth. We believe this can create high risk scenario for these two companies. However, post acquisition of Henkel India we expect next two years' scenario would be very different for Jyothy Labs and dependence on Ujala Supreme will reduce substantially. Nestle is also highly dependent on Maggi brand while high volume growth expectation reduces the risk exposure. Although we expect going forward Maggi's price power will reduce on account of higher competitive intensity.

Exhibit 55 - Company Dependence on Power Brand

Player	Brand	Brand Size (Rs bn)	Sales Dependence	EBITDA dependence	Last 1 yr Gr.	Last 3 yr Gr.	Mkt Share	Mkt Gr.
HUL	Wheel	~20	9%	~5%	~10%	~15%	~15%	~8%
HUL	Lux	~13	7%	~5%	~5%	~10%	~15%	~11%
HUL	Lifebuoy	~12	6%	~4%	~5%	~10%	~14%	~11%
HUL	Fair & Lovely	~13	7%	~8%	~15%	~16%	~40%	~20%
Nestle	Maggi	~15	25%	~35%	~25%	~25%	~88%	~30%
Dabur	Dabur Chyawanprash	~3	6%	~9%	~20%	~14%	~65%	~16%
Dabur	Babool	~2	6%	~5%	~12%	~12%	~7%	~13%
Dabur	Dabur Amla	~2	5%	~4%	~17%	~16%	na	na
Dabur	Vatika	~3	8%	~7%	~13%	~10%	na	na
Dabur	Real Fruit Juice	~3	8%	~8%	~30%	~20%	~60%	~25%
Colgate	Colgate Dental Cream	~9	44%	~18%	~5%	~5%	~25%	~13%
Marico	Parachute	~9	28%	~47%	~23%	~9%	~45%	~15%
Jyothy Labs	Ujala Supreme	~2	22%	~55%	~15%	~16%	~72%	~15%
Emami	Navratna oil	~3	27%		~20%	~15%	~49%	~15%
Emami	Zandu Balm	~4	28%	~75%	~22%	~20%	~57%	~18%
Emami	Boroplus	~2	17%		~9%	~14%	~75%	~12%

Source: PINC Research, Company

Packaging norms would increase price sensitivity

As per the notification issued by 'Packaged Commodity Rules, 2011', several FMCG products would have to follow stipulated pack size from July'12. We mention below list of the products and the stipulated quantity which are covered in the notification. Most of the FMCG companies are not in favour and at least don't want low price point (Rs1, Rs2, Rs5, Rs10 and Rs20) to be part of this rule. Here we mention our take on this new rule and its possible impact on the FMCG companies.

Our Take

- It would largely impact the modern trade market where consumers get an opportunity to compare products. Modern trade market is <10% of the total FMCG market so the impact should be restricted to that level only.
- FMCG companies with higher focus on popular segment (mass segment) would have to be more cautious for frequent price change. Popular segment is price sensitive and also faces competition from unbranded products too. Soaps, Detergents, Biscuits, Chocolates and Snacks are among the price sensitive products therefore HUL, P&G, ITC, Nestle and Britannia would be more vigilant for price hike.
- In high inflationary scenario, FMCG companies frequently reduce grammage and increase MRP to pass on the input burden to the consumers. Post the implementation of this new rule, price increase would remain only alternative to protect profitability. Typically price change is more visible than reducing the grammage so volume would be more sensitive for any change.

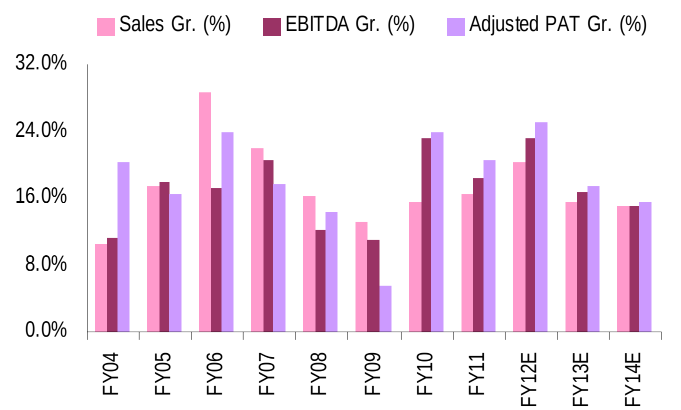
Exhibit 56 - List of the products under notification

S.N.	Category	Quantities in which to be packed
1	Baby Food	100g, 200g, 300g, 400g, 500g, 600,g, 700 g, 800 g, 900g, 1 kg,2kg, 5 kg and 10 kg.
2	Weaning Food	100g, 200g, 300g, 400g, 500g, 600g, 700g, 800g, 900g, 1 kg, 2kg, 5 kg and 10 kg.
3	Biscuits	25g, 50g, 75g, 100g, 150g, 200g, 250g, 300g and thereafter in multiples of 100g up to 1 kg.
4	Bread including brown bread but excluding bun.	100g and there after in of multiples 100g.
5	Un-canned packages of butter and margarine	25 g, 50 g, 100 g, 200 g, 500 g, 1 kg, 2 kg, 5 kg, and thereafter in multiples of 5 kg
6	Cereals and Pulses	100g, 200g, 500g, 1 kg, 2 kg, 5 kg and thereafter multiples of 5 kg
7	Coffee	25g, 50g, 100g, 200g, 250g, 500g, 1kg and thereafter in multiples of 1kg.
8	Tea	25g, 50g, 100g, 125g 250g, 500g, 1kg and thereafter in multiples of 1kg.
9	Materials which may be constituted or reconstituted as beverages.	25 g, 50 g, 100 g, 200 g, 500 g, 1 kg and thereafter in multiples of 1kg.
10	Edible Oils, Vanaspati, Ghee, Butter oil	50 g, 100 g, 200 g, 500 g, 1 kg, 2 kg, 3 kg, 5 kg and thereafter in multiples of 5 kg If net quantity is declared by volume the same number in milliliters or liters, as the case may be. If the net quantity is declared by volume, then the equivalent quantity in terms of mass to be declared in brackets in same size of letters/numerals
11	Milk Powder.	Below 50g no restriction, 50 g, 100g, 200g, 500 g, 1 kg and thereafter in multiples of 500 g.
12	Non-soapy detergents (powder)	Below 50 g no restriction, 50g, 100g, 200g, 500g,700g, 1kg, 1.5 kg, 2 kg and thereafter, in multiples of 1 kg
13	Rice(powdered),Flour, Atta, Rawa and Suji	100g, 200g, 500g, 1kg, 2kg, 5 kg and thereafter in multiples of 5 kg
14	Salt	Below 50g in multiples of 10g, 50g, 100g, 200g, 500g, 750g, 1 kg,2 kg, 5 kg and thereafter in multiples of 5kg
15	Soaps	
	(a) Laundry Soap	50g, 75g, 100g, and thereafter in multiples of 50g.
	(b) Non-soapy detergent cakes/bars	50g, 75g, 100g, 125g, 150g, 200g, 250g, 300g and thereafter in multiples of 100g
	(c) Toilet Soap including all kinds of bath soap (cakes).	25g, 50g, 75g, 100g, 125g, 150g and thereafter in multiples of 50g.
16	Aerated soft drinks, non-alcoholic beverages	65 ml (fruit based drinks only), 100 ml, 125ml(fruit based drinks only), 150 ml, 200 ml, 250 ml, 300 ml,330ml(in cans only), 500ml, 750 ml, 1 litre, 1.5 litre, 2 litre, 3 litre, 4 litre and 5 litre.
17	Mineral water and drinking water	100 ml, 150 ml, 200 ml, 250 ml, 300 ml, 500 ml, 750 ml, 1 litre,1.5 litre, 2 litre, 3 litre, 4 litre and 5 litre.
18	Cement in bags	1 kg, 2 kg, 5 kg, 10 kg, 20 kg, 25 kg, 40 kg (for White cement only) and 50 kg.
19	Paint varnish etc.	
	(a) Paint (other than paste paint or solid paint) varnish, varnish stains, enamels	50 ml, 100 ml, 200 ml, 500 ml, 1 litre, 2 litre, 3 litre, 4 litre, 5 litre and thereafter in multiples of 5 litre.
	(b) Paste paint and solid paint	500g, 1 kg, 1.5 kg, 2 kg, 3 kg, 5 kg, 7kg and thereafter multiple of 5kg.
	(c) Base paint:	450 ml, 500 ml, 900 ml, 925 ml, 950 ml, 975 ml, 1 litre, 3.6 litre,3.7 litre, 3.8 litre, 3.9 litre and 4 litre and no restriction above 4 litre.

Source: PINC Research, Packaged Commodity Rules, 2011

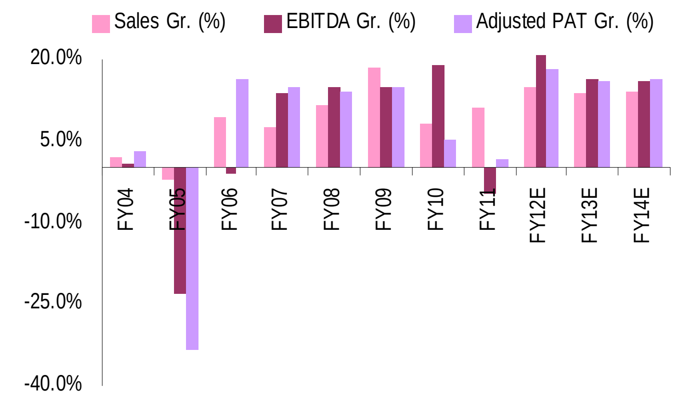
Business Trend

Exhibit 57 - ITC Business Performance



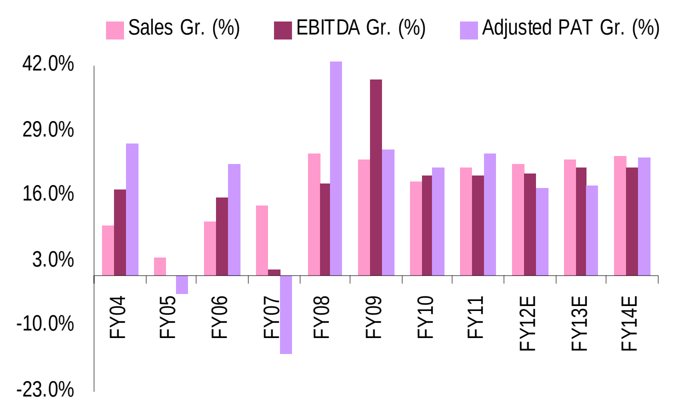
Source: PINC Research, Company

Exhibit 58 - HUL Business Performance



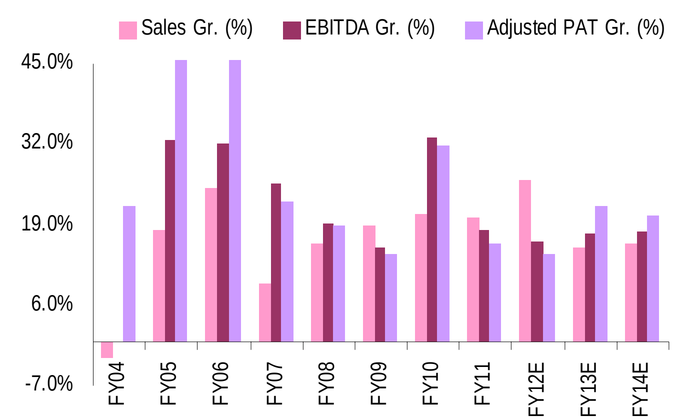
Source: PINC Research, Company

Exhibit 59 - Nestle India Business Performance



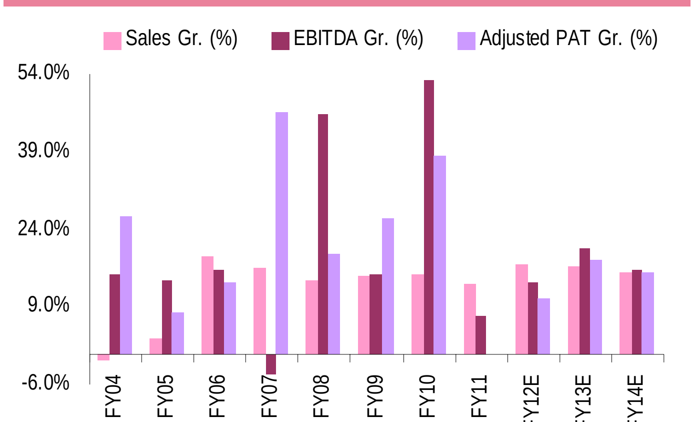
Source: PINC Research, Company

Exhibit 60 - Dabur Business Performance



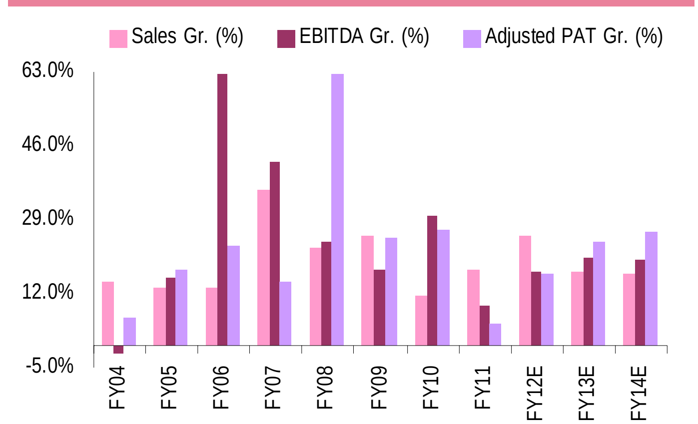
Source: PINC Research, Company

Exhibit 61 - Colgate Business Performance



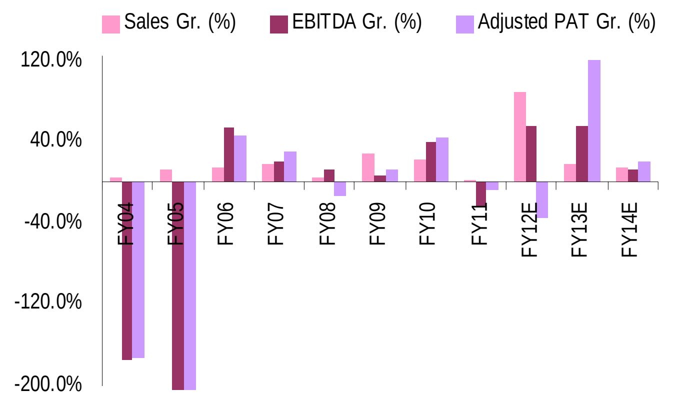
Source: PINC Research, Company

Exhibit 62 - Marico Business Performance



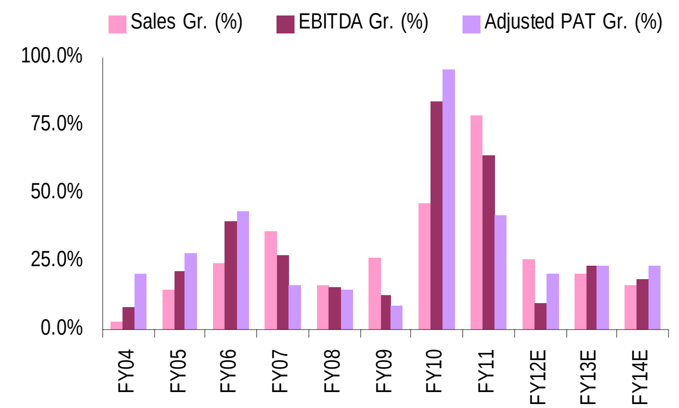
Source: PINC Research, Company

Exhibit 63 - Jyothy Labs Business Performance



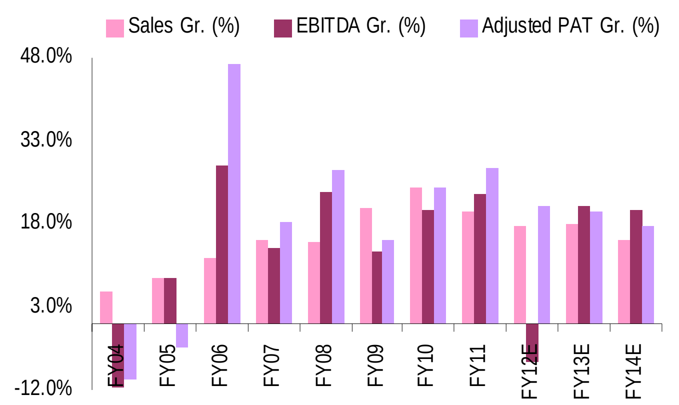
Source: PINC Research, Company

Exhibit 64 - GCPL Business Performance



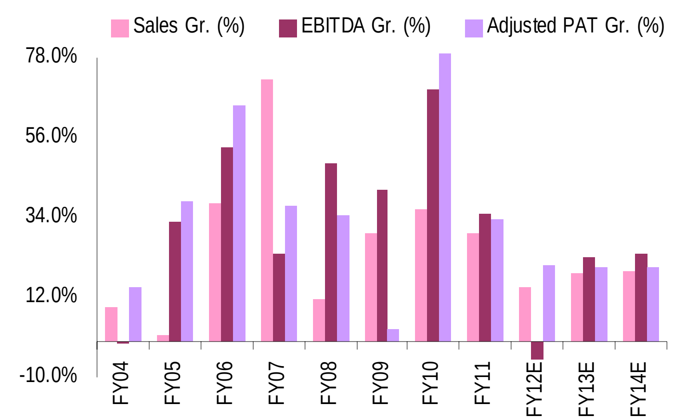
PINC Research, Bloomberg Consensus

Exhibit 65 - GSK Consumers Business Performance



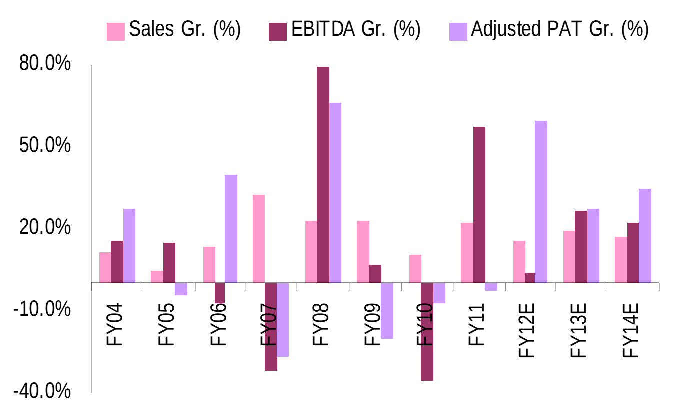
PINC Research, Bloomberg Consensus

Exhibit 66 - Emami Business Performance



PINC Research, Bloomberg Consensus

Exhibit 67 - Britannia Business Performance



PINC Research, Bloomberg Consensus

Cost Structure

Exhibit 68 - EBITDA Margin Comparison

Companies	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11
ITC	35.7%	35.9%	36.1%	32.9%	32.5%	31.4%	30.7%	32.8%	33.3%
HUL	19.3%	19.1%	15.0%	13.6%	14.4%	14.8%	14.3%	15.7%	13.5%
Nestle India	19.7%	21.0%	20.2%	21.1%	18.7%	17.8%	20.1%	20.3%	20.1%
Dabur	12.2%	12.5%	14.1%	14.9%	17.1%	17.5%	17.0%	18.7%	18.4%
Colgate	13.4%	15.6%	17.4%	17.0%	14.0%	18.0%	18.0%	23.8%	22.5%
Marico	9.8%	8.4%	8.5%	12.2%	12.8%	12.9%	12.1%	14.1%	13.1%
Jyothy Labs	8.1%	-5.7%	11.1%	14.9%	15.0%	16.3%	13.6%	15.6%	11.8%
GCPL	17.2%	18.1%	19.1%	21.5%	20.1%	20.0%	17.7%	22.2%	20.5%
GSK Consumers	22.5%	18.9%	18.8%	21.6%	21.4%	23.0%	21.5%	20.8%	21.4%
Emami Ltd	13.1%	12.0%	15.7%	17.4%	12.6%	16.8%	18.4%	22.8%	23.8%
Britannia Industries	14.2%	14.8%	16.2%	13.3%	6.8%	9.9%	8.6%	5.0%	6.5%
Total	22.1%	22.2%	21.5%	20.8%	20.6%	20.8%	19.8%	21.8%	21.2%

Source: PINC Research, Company

Gainer	:	Dabur, Colgate, Marico, GCPL, Emami
Looser	:	HUL, Britannia Industries
Maintain	:	Nestle India, GSK Consumers

Exhibit 69 - RM Dependence

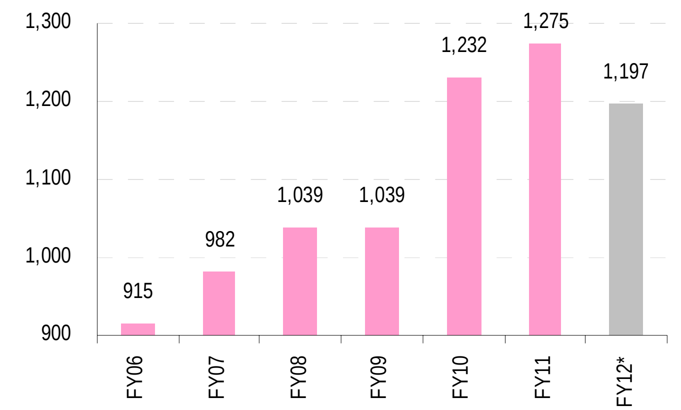
Companies	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11
ITC	36.7%	34.3%	34.2%	39.0%	39.8%	40.5%	35.7%	36.4%	36.4%
HUL	52.1%	52.3%	54.2%	54.9%	53.0%	52.5%	52.7%	50.0%	51.1%
Nestle India	43.2%	44.6%	46.4%	45.0%	46.9%	48.0%	48.7%	47.6%	48.8%
Dabur	44.4%	45.9%	44.0%	43.2%	47.4%	47.0%	48.8%	45.5%	46.5%
Colgate	48.6%	51.1%	50.1%	44.1%	43.3%	41.8%	42.4%	38.5%	38.2%
Marico	64.1%	64.1%	61.4%	52.6%	51.6%	51.5%	53.8%	47.4%	51.7%
Jyothy Labs	50.6%	54.0%	50.9%	46.5%	51.8%	48.5%	54.8%	53.1%	51.9%
GCPL	46.8%	48.0%	48.9%	46.7%	48.6%	46.9%	55.1%	46.3%	48.0%
GSK Consumers	23.7%	25.2%	26.7%	22.2%	24.7%	25.1%	27.6%	28.3%	29.1%
Emami Ltd	60.3%	63.4%	57.5%	58.2%	43.6%	35.6%	35.7%	37.2%	39.6%
Britannia Industries	42.4%	42.0%	58.8%	58.7%	64.2%	61.0%	61.9%	63.9%	65.7%

Source: PINC Research, Company

- Britannia is having high RM dependence & any fluctuation in the same impacts it the most. Wheat and Sugar are the key commodities for Britannia. Increase in excise duty along with rise in competition has enlarged the RM dependence from FY05 onwards.
- HUL has substantially reduced (by >250bps in the past 9 years) its dependence on raw material through higher contribution of its high margin Personal care business. However 160bps rise in packaging cost has limited the overall benefit to ~90bps.

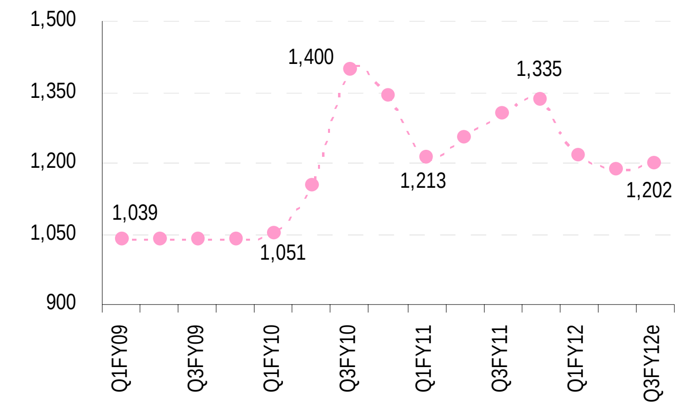
Key RM Trend

Exhibit 70 - Yearly Avg. Wheat Prices (Rs/quintal)



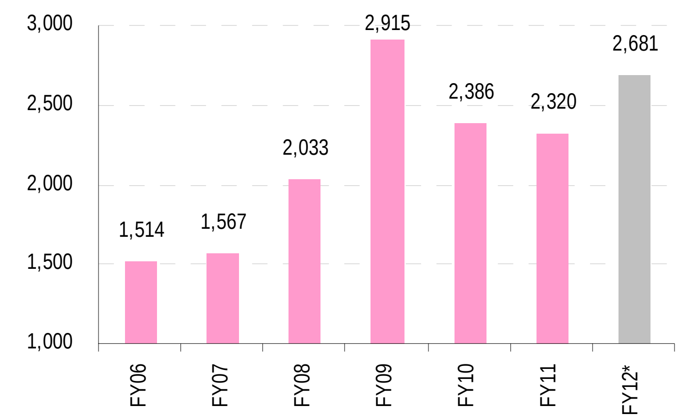
*Source: PINC Research, Bloomberg *Till date*

Exhibit 71 - Quarterly Avg. Wheat Prices (Rs/quintal)



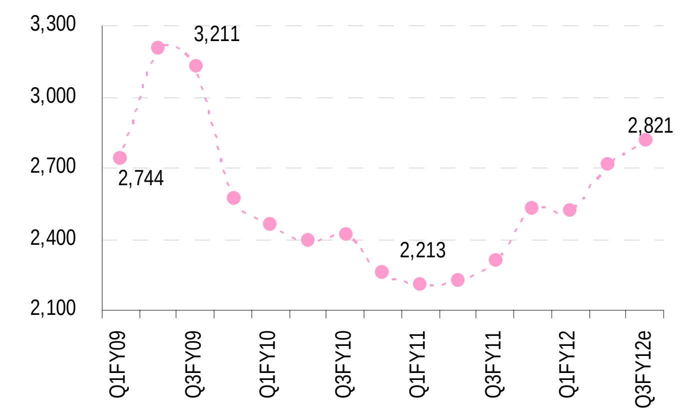
*Source: PINC Research, Bloomberg *Till date*

Exhibit 72 - Yearly Avg. Safflower Prices (Rs/quintal)



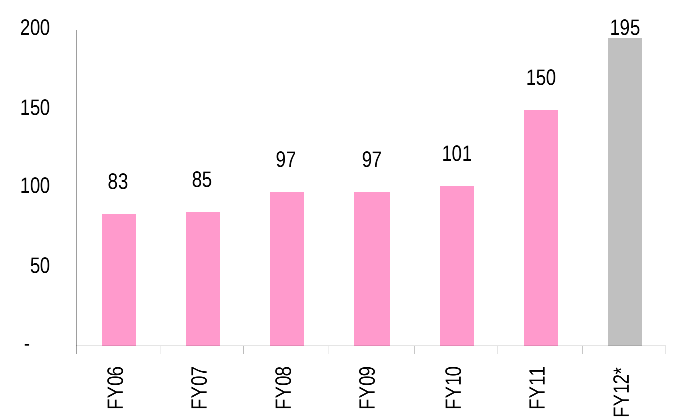
*Source: PINC Research, Bloomberg *Till date*

Exhibit 73 - Quarterly Avg. Safflower Prices (Rs/quintal)



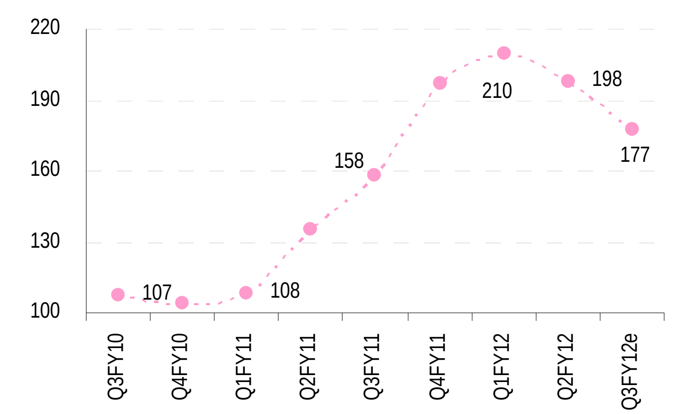
*Source: PINC Research, Bloomberg *Till date*

Exhibit 74 - Yearly Avg. Coffee Index (USD)



*Source: PINC Research, Bloomberg *Till date*

Exhibit 75 - Quarterly Avg. Coffee Index (USD)



*Source: PINC Research, Bloomberg *Till date*

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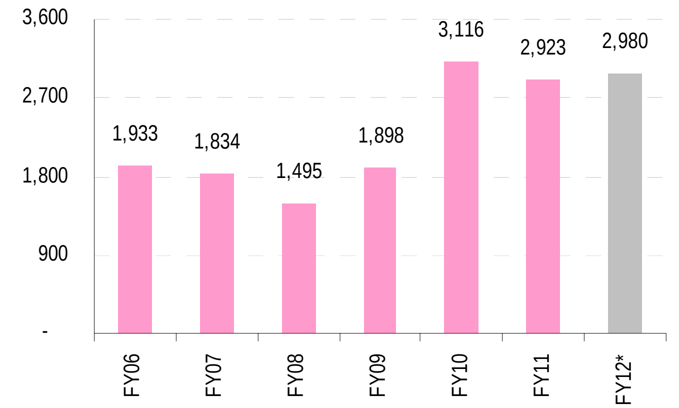
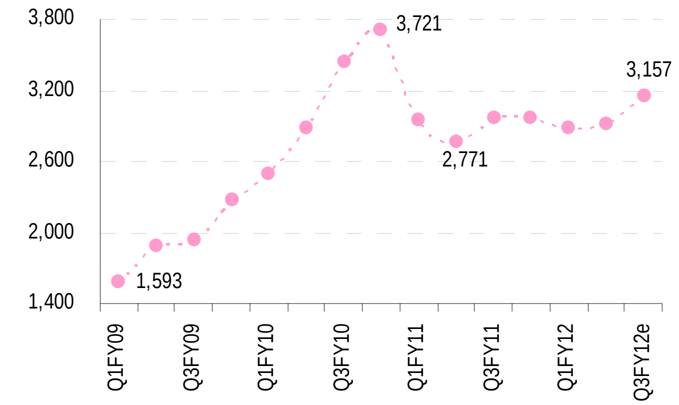
Exhibit 76 - Yearly Avg. Sugar Prices (Rs/quintal)



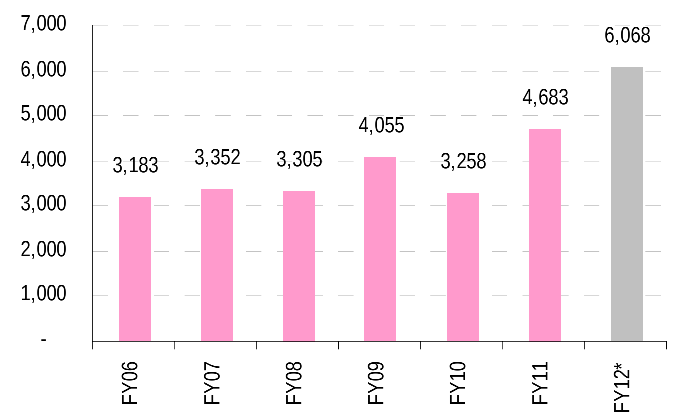
Source: PINC Research, Bloomberg *Till date

Exhibit 77 - Quarterly Avg. Sugar Prices (Rs/quintal)



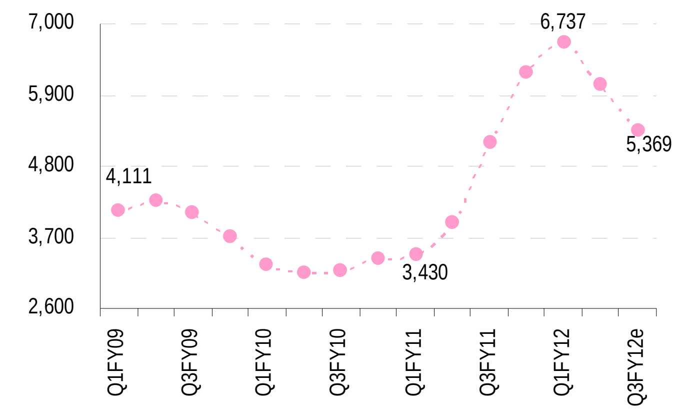
Source: PINC Research, Bloomberg *Till date

Exhibit 78 - Yearly Avg. Copra Prices (Rs/quintal)



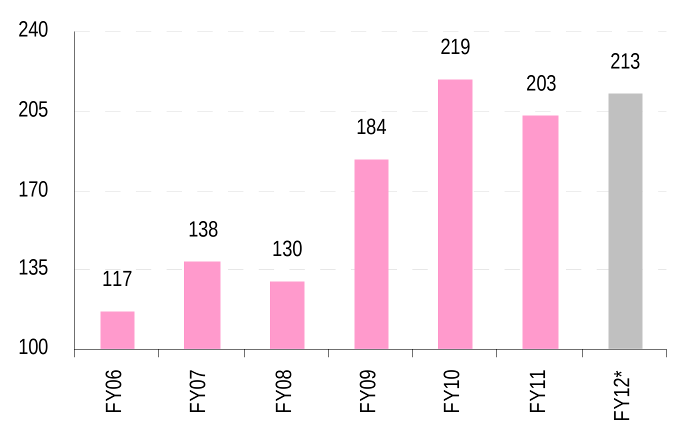
Source: PINC Research, Bloomberg *Till date

Exhibit 79 - Quarterly Avg. Copra Prices (Rs/quintal)



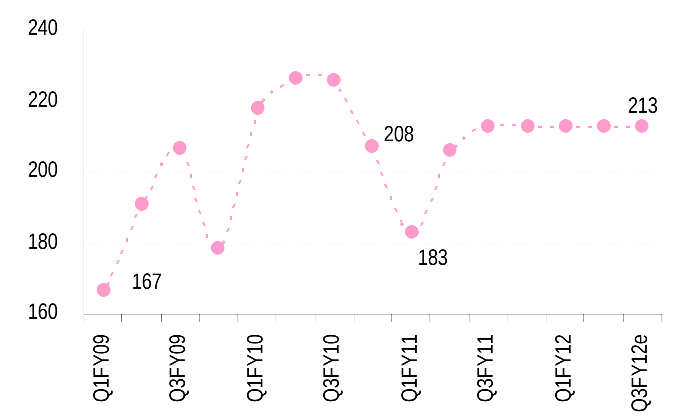
Source: PINC Research, Bloomberg *Till date

Exhibit 80 - Yearly Avg. Tea Prices (Rs/quintal)



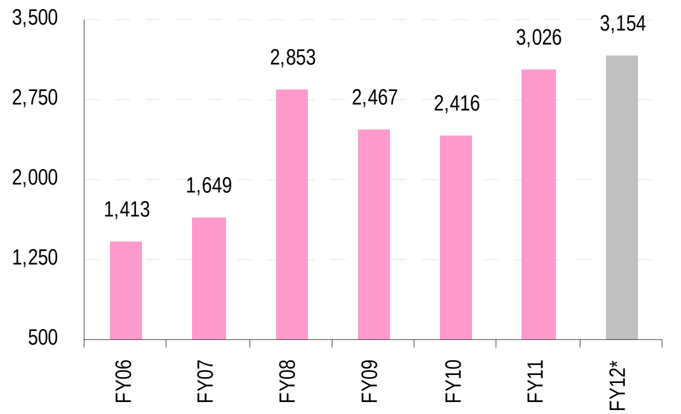
Source: PINC Research, Bloomberg *Till date

Exhibit 81 - Quarterly Avg. Tea Prices (Rs/quintal)



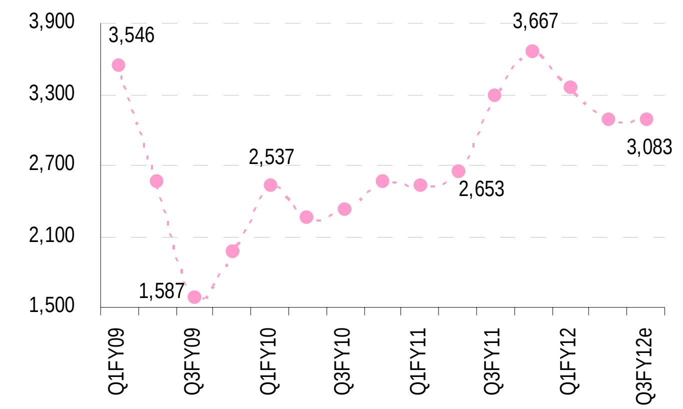
Source: PINC Research, Bloomberg *Till date

Exhibit 82 - Yearly Avg. Palm oil Prices (MYR/mt)



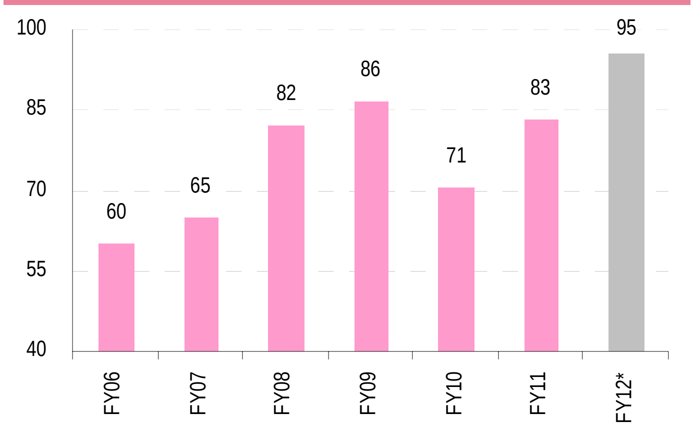
Source: PINC Research, Bloomberg *Till date

Exhibit 83 - Quarterly Avg. Palm oil Prices (MYR/mt)



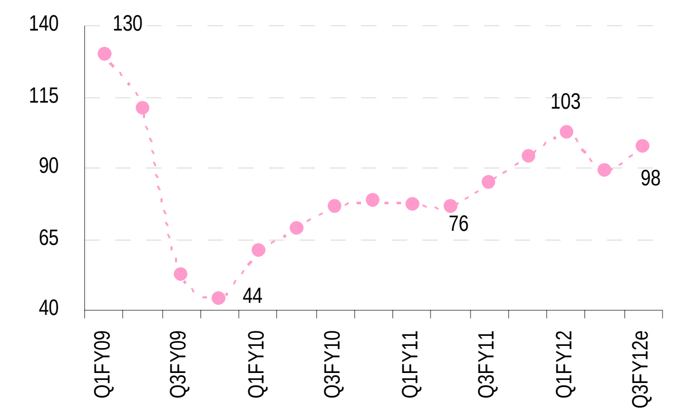
Source: PINC Research, Bloomberg *Till date

Exhibit 84 - Yearly Avg. Crude (USD/barrel)



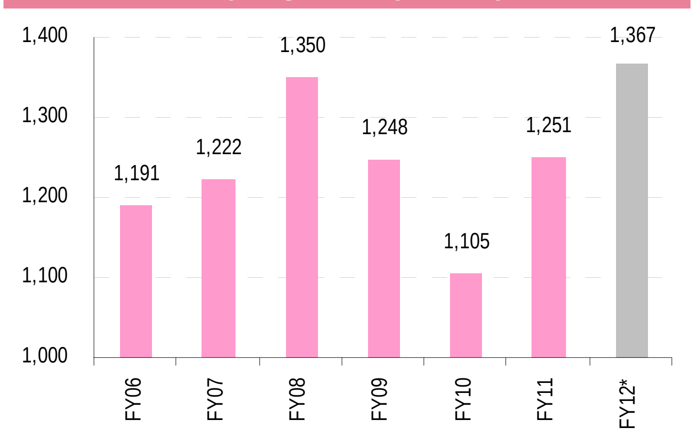
Source: PINC Research, Bloomberg *Till date

Exhibit 85 - Quarterly Avg. Crude (USD/barrel)



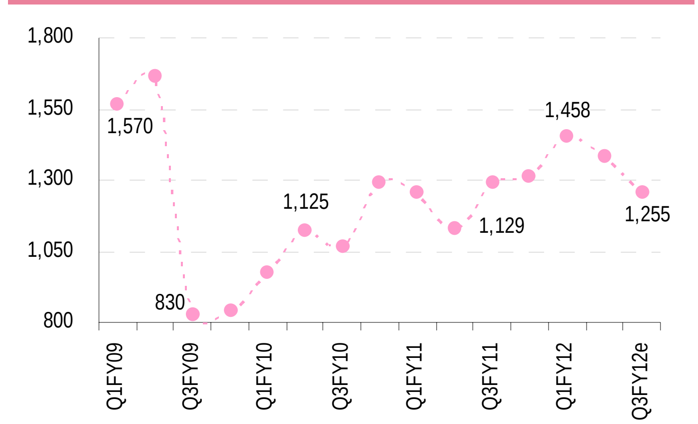
Source: PINC Research, Bloomberg *Till date

Exhibit 86 - Yearly Avg. HDPE (USD/mt)



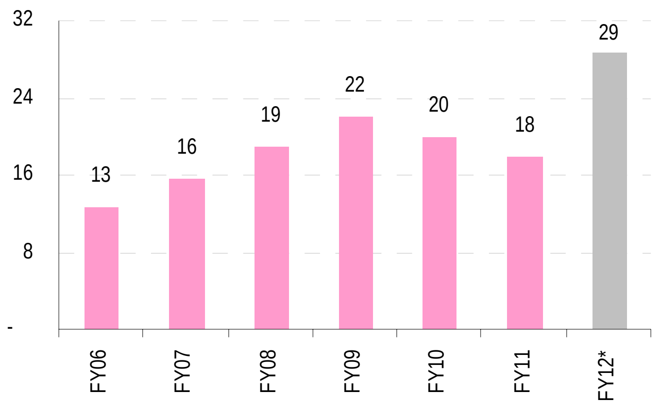
Source: PINC Research, Bloomberg *Till date

Exhibit 87 - Quarterly Avg. HDPE (USD/mt)



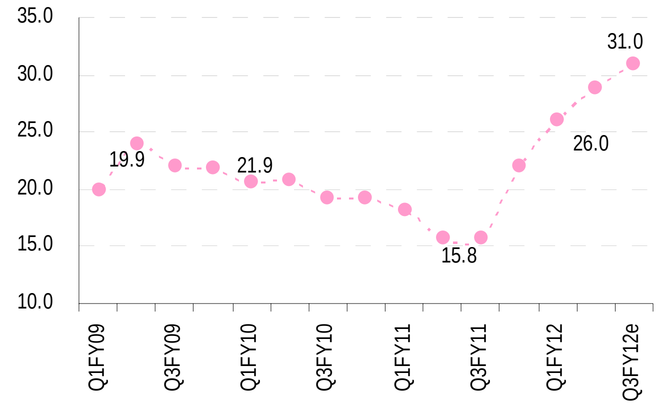
Source: PINC Research, Bloomberg *Till date

Exhibit 88 - Yearly Avg. Soda Ash (Rs/kg)



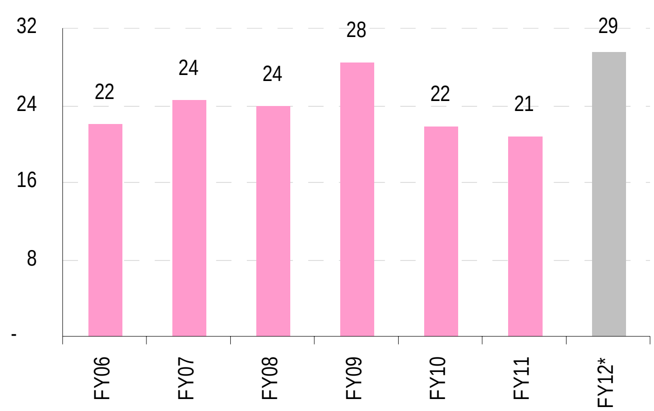
*Source: PINC Research, Bloomberg *Till date*

Exhibit 89 - Quarterly Avg. Soda Ash (Rs/kg)



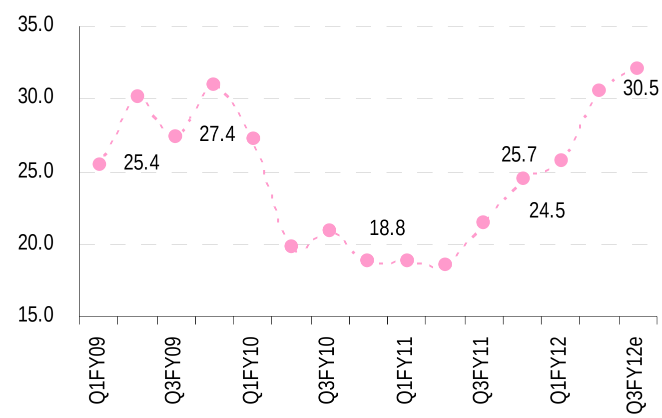
*Source: PINC Research, Bloomberg *Till date*

Exhibit 90 - Yearly Avg. Caustic Soda (Rs/kg)



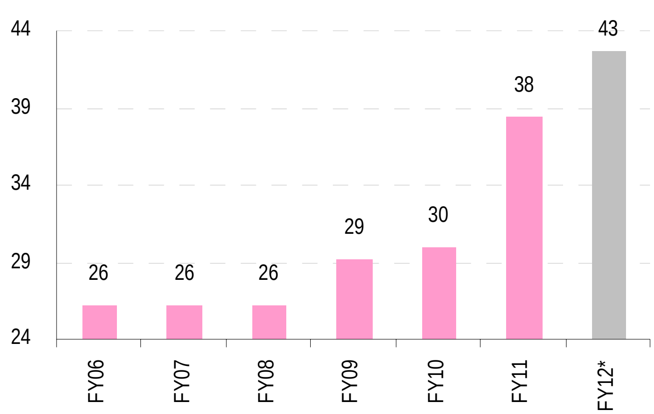
*Source: PINC Research, Bloomberg *Till date*

Exhibit 91 - Quarterly Avg. Caustic Soda (Rs/kg)



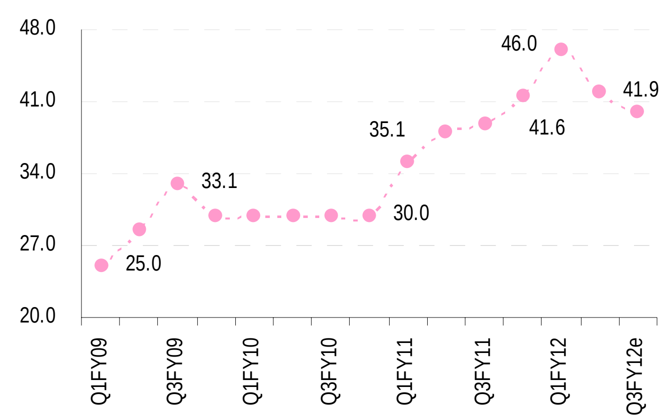
*Source: PINC Research, Bloomberg *Till date*

Exhibit 92 - Yearly Avg. Sorbitol (Rs/kg)



*Source: PINC Research, Bloomberg *Till date*

Exhibit 93 - Quarterly Avg. Sorbitol (Rs/kg)



*Source: PINC Research, Bloomberg *Till date*

Exhibit 94 - Staff Cost (% of sales)

Companies	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11
ITC	7.1%	7.8%	7.3%	7.0%	6.9%	7.3%	8.0%	7.7%	7.8%
HUL	6.3%	6.3%	6.7%	6.3%	6.2%	5.7%	6.1%	6.4%	5.1%
Nestle India	7.3%	7.2%	7.2%	7.2%	7.5%	7.5%	7.1%	8.4%	6.9%
Dabur	7.6%	6.8%	6.7%	7.3%	7.5%	8.0%	7.7%	7.9%	7.3%
Colgate	7.7%	7.4%	7.8%	8.5%	12.8%	7.8%	8.2%	7.9%	8.5%
Marico	4.5%	5.2%	5.1%	6.8%	5.8%	6.7%	6.9%	7.3%	7.4%
Jyothy Labs	6.8%	9.0%	10.7%	11.5%	11.7%	13.5%	13.1%	12.6%	13.2%
GCPL	5.0%	4.8%	5.4%	6.8%	5.7%	6.6%	6.2%	7.4%	7.8%
GSK Consumers	12.9%	12.2%	12.0%	11.9%	11.8%	11.8%	10.8%	10.1%	9.6%
Emami Ltd	4.8%	5.3%	5.6%	4.9%	4.4%	5.7%	6.4%	6.4%	5.6%
Britannia Industries	6.4%	6.3%	4.5%	4.0%	3.5%	4.5%	4.6%	4.4%	3.9%

Source: PINC Research, Company

High Pay : Jyothy Labs, GSK Consumers

Low Pay : Britannia, HUL

Average Pay : ITC, Nestle India, Dabur, Colgate, Marico, GCPL

Exhibit 95 - Advertisement and Sales Promotion (% of sales)

Companies	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11
ITC	3.8%	4.1%	2.9%	2.3%	2.5%	2.8%	3.2%	2.8%	2.9%
HUL	8.4%	7.2%	8.1%	8.8%	10.2%	10.3%	10.4%	13.4%	14.0%
Nestle India	7.7%	6.3%	5.4%	5.5%	5.3%	4.9%	4.5%	5.2%	4.8%
Dabur	13.0%	13.5%	13.6%	11.8%	12.5%	12.5%	12.2%	14.5%	13.1%
Colgate	19.4%	15.7%	14.2%	17.3%	15.6%	16.9%	15.6%	14.8%	15.3%
Marico	8.3%	8.5%	9.6%	12.1%	13.6%	12.8%	10.2%	13.2%	11.1%
Jyothy Labs	22.7%	27.0%	11.7%	9.5%	9.4%	8.0%	5.1%	6.4%	9.0%
GCPL	7.9%	7.0%	11.0%	10.3%	11.4%	11.9%	9.9%	9.9%	11.2%
GSK Consumers	11.4%	12.3%	11.8%	13.1%	12.9%	12.9%	12.6%	15.7%	16.1%
Emami Ltd	5.0%	1.7%	1.3%	2.4%	20.3%	18.0%	19.2%	19.0%	17.4%
Britannia Industries	7.3%	8.0%	6.7%	6.3%	6.1%	6.6%	6.9%	8.0%	7.3%

Source: PINC Research, Company

High Spending : HUL, Colgate, Dabur and Emami

Low Spending : ITC, Nestle,

Average Spending : Marico, Jyothy Labs, GCPL, Britannia Industries

- ITC's A&P spending mainly occurs on its FMCG business which includes branded packaged foods, personal care, education & stationary and life style retailing. Therefore A&P spending ratio in total sales is very low otherwise for FMCG business ITC's A&P spending is competitive enough.
- Nestle India doesn't spend on infant foods business and we believe spending on milk products also entail low A&P spending. Nestle's large part of the expense happens on Noodles, Chocolates and Beverages in the same order. Excluding Infant foods and Milk business, Nestle's A&P spending is in the range of 8-9% which comes in the average spending category. With rising competition in almost all the categories, we expect higher A&P spending going forward.

Exhibit 96 - Distribution Expense (% of sales)

Companies	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11
ITC	2.8%	2.9%	3.3%	3.5%	3.7%	3.8%	4.1%	3.4%	3.4%
HUL	4.1%	4.4%	4.9%	5.0%	5.3%	5.2%	5.5%	4.8%	5.3%
Nestle India	5.1%	4.9%	4.9%	4.8%	4.7%	4.6%	4.7%	4.7%	5.0%
Dabur	2.8%	2.7%	2.9%	3.4%	3.5%	2.8%	2.1%	1.8%	2.4%
Colgate	1.7%	1.7%	1.7%	2.2%	2.2%	2.3%	2.5%	2.5%	3.1%
Marico	4.0%	3.9%	3.8%	3.8%	3.7%	4.1%	3.9%	3.9%	4.2%
Jyothy Labs	1.3%	1.8%	1.4%	1.9%	2.2%	2.9%	2.6%	2.5%	2.9%
GCPL	9.1%	8.4%	4.7%	5.0%	3.4%	3.0%	2.6%	2.5%	2.6%
GSK Consumers	5.1%	4.1%	4.6%	4.7%	5.2%	5.2%	5.1%	4.7%	4.9%
Emami Ltd	2.9%	3.3%	3.5%	2.7%	2.6%	2.6%	2.5%	2.2%	2.7%
Britannia Industries	3.1%	3.7%	3.8%	6.0%	7.4%	6.8%	6.9%	6.7%	6.5%

Source: PINC Research, Company

High Expense : Britannia Industries, HUL

Low Expense : Dabur, GCPL, Jyothy Labs, Emami

Average Expense : Nestle, Marico, Colgate, GSK Consumers, ITC

Exhibit 97 - Other Income (% of PBT)

Companies	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11
ITC	9.5%	10.4%	19.9%	9.9%	9.3%	12.8%	10.6%	10.4%	10.7%
HUL	13.0%	15.9%	12.8%	9.8%	10.4%	11.1%	9.1%	3.0%	9.6%
Nestle India	5.3%	5.5%	3.6%	5.6%	6.4%	13.3%	4.2%	3.0%	3.2%
Dabur	3.1%	4.6%	3.3%	3.7%	6.1%	5.6%	7.3%	5.5%	6.6%
Colgate	24.9%	19.7%	19.2%	13.6%	15.5%	13.9%	16.0%	9.0%	8.2%
Marico	18.8%	6.8%	7.8%	9.6%	18.3%	9.8%	5.3%	6.1%	7.4%
Jyothy Labs	14.4%	-28.9%	15.4%	19.9%	19.5%	21.1%	14.3%	17.4%	29.2%
GCPL	2.9%	3.0%	7.5%	6.9%	7.1%	2.4%	19.1%	10.5%	16.0%
GSK Consumers	39.0%	46.0%	36.7%	26.8%	17.2%	14.2%	19.8%	12.2%	13.2%
Emami Ltd	1.6%	6.7%	6.0%	11.3%	24.1%	21.5%	22.9%	20.4%	1.5%
Britannia Industries	35.7%	44.3%	52.8%	19.5%	30.3%	25.1%	42.2%	53.6%	34.7%

Source: PINC Research, Company

High Share : Britannia Industries, Jyothy Labs, GCPL, GSK Consumers

Low Share : Nestle India, Emami Ltd

Average Share : ITC, HUL, Colgate, Marico, Dabur

Exhibit 98 - Dividend Payout Ratio (%)

Companies	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11
ITC	27.6%	30.6%	41.0%	42.6%	42.4%	41.9%	42.0%	92.8%	69.5%
HUL	73.1%	93.6%	96.7%	81.0%	87.2%	113.8%	65.6%	67.6%	66.1%
Nestle India	83.7%	73.6%	93.6%	77.9%	75.1%	73.8%	75.8%	71.1%	57.1%
Dabur	47.2%	54.4%	46.7%	44.8%	44.5%	39.7%	40.6%	35.4%	30.6%
Colgate	67.8%	75.6%	81.8%	77.0%	66.5%	76.3%	69.8%	67.3%	67.6%
Marico	26.8%	45.4%	44.5%	41.9%	41.3%	24.9%	20.0%	15.9%	15.2%
Jyothy Labs	7.9%	na	8.1%	22.9%	17.5%	32.3%	37.8%	39.1%	58.6%
GCPL	77.4%	86.1%	78.9%	66.1%	61.0%	58.3%	59.4%	37.2%	34.0%
GSK Consumers	37.4%	39.0%	43.4%	31.3%	33.1%	31.0%	33.7%	32.1%	70.5%
Emami Ltd	7.6%	7.9%	20.8%	25.2%	37.4%	31.3%	37.0%	27.1%	20.3%
Britannia Industries	25.3%	22.9%	22.5%	24.5%	34.1%	24.2%	63.1%	57.9%	57.8%

Source: PINC Research, Company

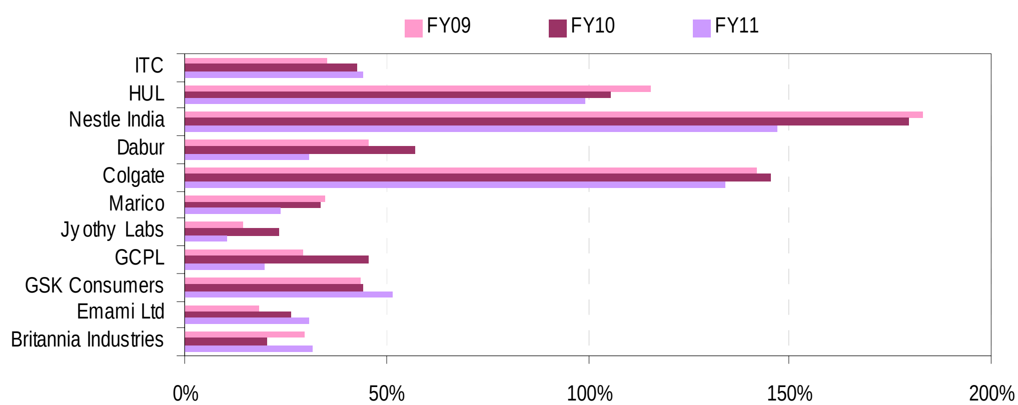
High Paying	:	ITC, HUL, Colgate, GSK Consumers
Low Paying	:	Marico, Emami, Dabur, GCPL
Average Paying	:	Nestle India, Jyothy Labs, Britannia

Exhibit 99 - Effective Tax Rate (%)

Companies	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11
ITC	34.3%	31.6%	27.6%	30.7%	31.4%	32.0%	32.6%	32.9%	31.8%
HUL	22.7%	21.2%	22.0%	16.7%	17.9%	19.0%	17.8%	22.6%	21.6%
Nestle India	35.7%	34.1%	34.8%	34.0%	34.4%	34.0%	30.7%	28.6%	28.5%
Dabur	12.8%	12.0%	10.8%	12.3%	11.7%	13.2%	12.1%	16.7%	19.6%
Colgate	40.3%	28.7%	36.4%	26.8%	20.6%	20.7%	16.0%	12.7%	22.6%
Marico	12.2%	9.7%	5.6%	11.3%	24.8%	17.5%	17.8%	21.6%	22.6%
Jyothy Labs	16.7%	16.8%	21.2%	18.7%	12.5%	25.0%	22.4%	22.5%	19.0%
GCPL	24.4%	20.6%	11.5%	8.5%	10.7%	14.2%	15.2%	18.9%	20.1%
GSK Consumers	32.9%	22.2%	36.8%	34.0%	33.4%	33.6%	33.7%	34.4%	33.6%
Emami Ltd	13.3%	12.6%	6.5%	1.9%	11.4%	11.9%	13.3%	17.2%	17.0%
Britannia Industries	33%	36%	32%	27%	10%	19%	27%	27%	27%

Source: PINC Research, Company

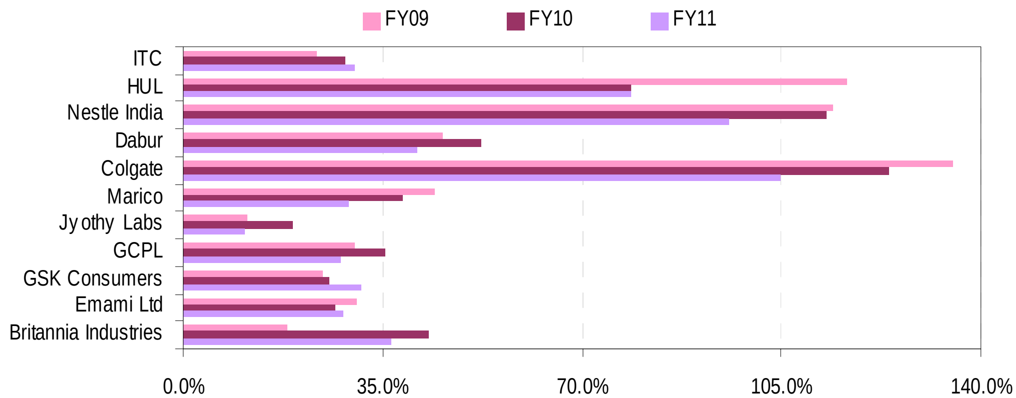
Exhibit 100 - ROCE (%)



Source: PINC Research, Company

Improved	:	ITC, GSK Consumers, Emami
Decline	:	Nestle India, Jyothy Labs, Dabur, Marico, GCPL
Maintained	:	HUL, Colgate, Britannia

Exhibit 101 - ROE



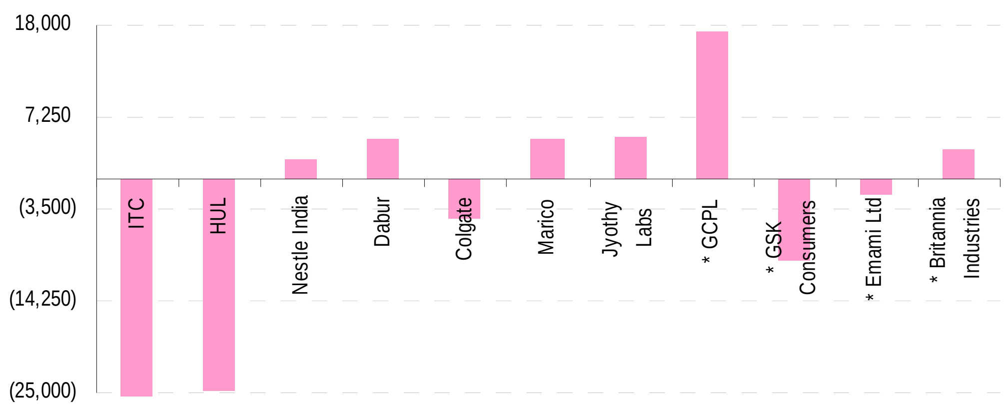
Source: PINC Research, Company

Improved : ITC, Britannia

Decline : HUL, Nestle India, Jyothy Labs, Marico, Colgate

Maintained : Dabur, GCPL, GSK Consumers, Emami

Exhibit 102 - Net Debt Position (FY12E)



Source: PINC Research, Company ** Bloomberg Consensus*

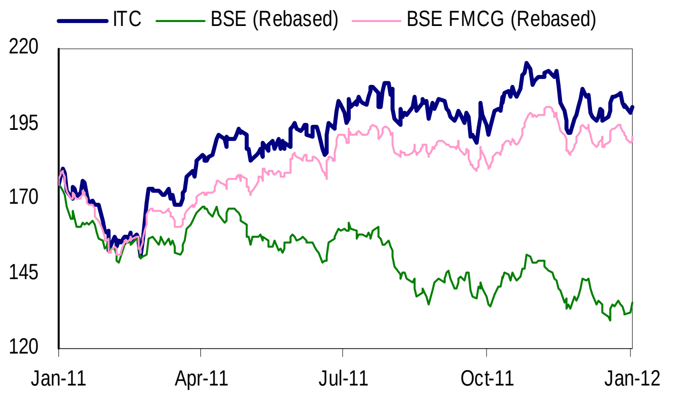
Exhibit 103 - Cash Flow From Operations

Companies	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11
ITC	18,459	19,984	15,872	20,966	22,476	30,067	35,335	44,433	54,536
HUL	16,196	15,742	12,265	20,094	16,714	17,289	20,541	34,797	19,102
Nestle India	3,355	3,588	3,652	4,031	4,186	5,192	7,236	9,280	10,368
Dabur	1,472	0	2,157	2,187	2,098	3,821	3,222	4,989	5,011
Colgate	1,657	801	1,212	1,878	1,577	2,914	3,497	4,040	3,855
Marico	646	797	402	1,648	1,924	1,429	1,847	2,021	3,134
Jyothy Labs	(272)	26	390	512	324	566	299	503	(55)
GCPL	707	843	898	1,427	1,204	1,622	1,433	3,385	2,061
GSK Consumers	1,523	1,455	1,291	985	1,386	1,881	1,347	4,000	3,262
Emami Ltd	308	186	317	513	494	224	2,542	1,462	1,265
Britannia Industries	571	738	689	1,506	1,308	691	2,503	2,377	2,761

Source: PINC Research, Company

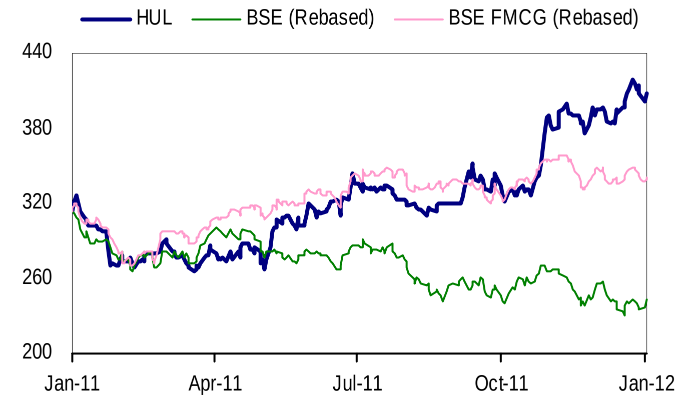
Past One Year Performance

Exhibit 104 - ITC Stock Performance



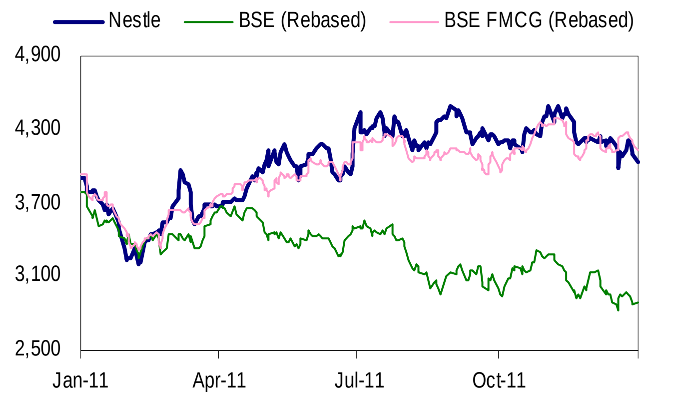
Source: *Bloomberg*

Exhibit 105 - HUL Stock Performance



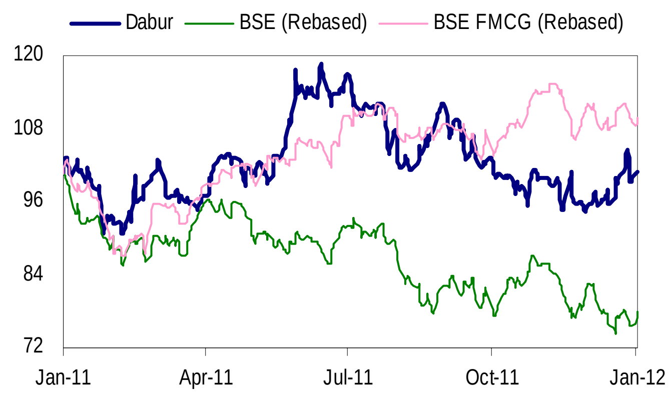
Source: *Bloomberg*

Exhibit 106 - Nestle India Stock Performance



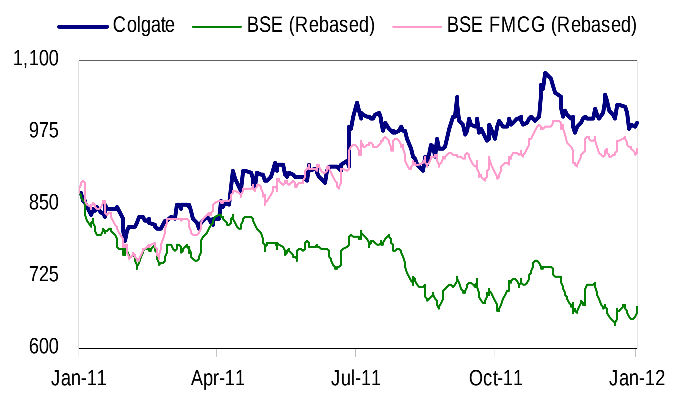
Source: *Bloomberg*

Exhibit 107 - Dabur Stock Performance



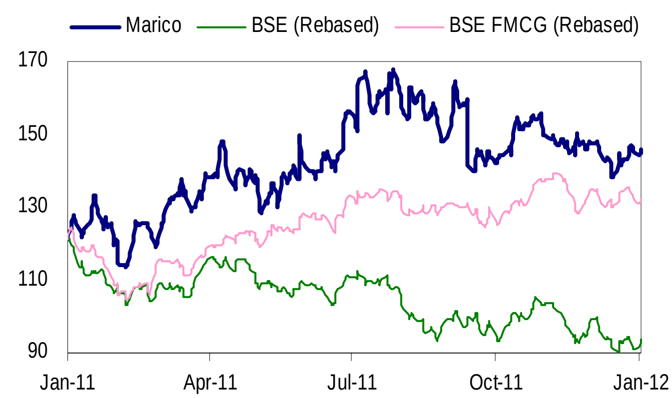
Source: *Bloomberg*

Exhibit 108 - Colgate Stock Performance



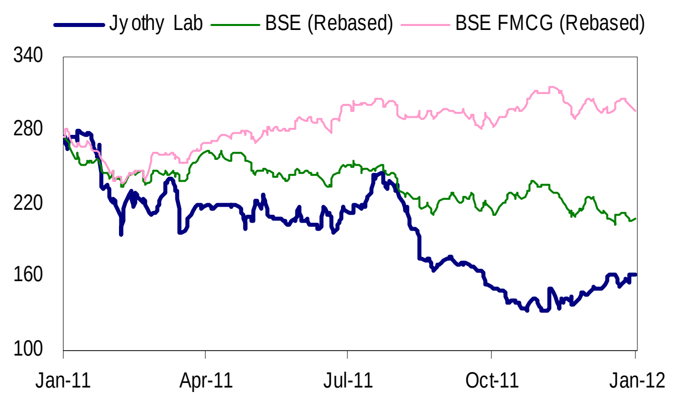
Source: *Bloomberg*

Exhibit 109 - Marico Stock Performance



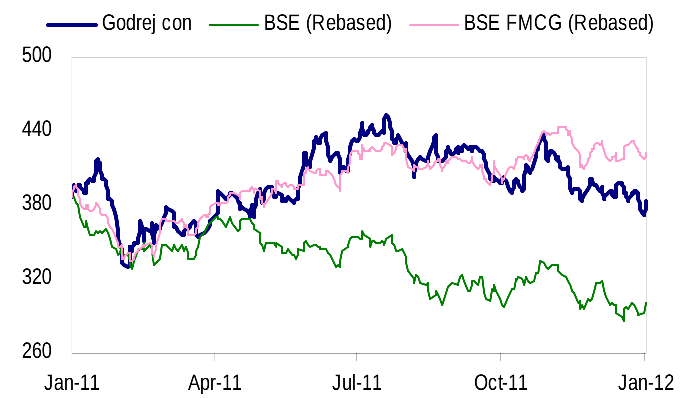
Source: *Bloomberg*

Exhibit 110 - Jyothy Labs Stock Performance



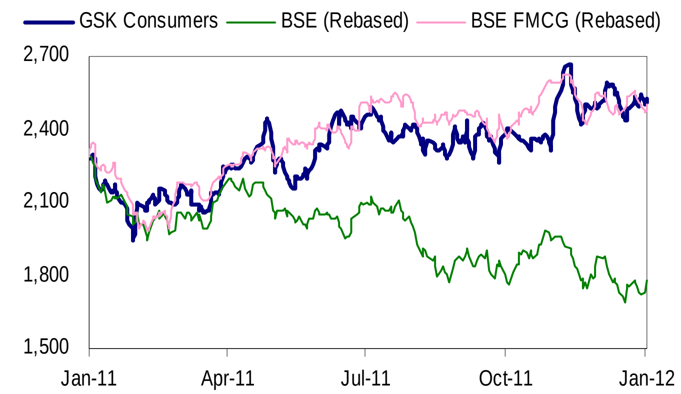
Source: Bloomberg

Exhibit 111 - Godrej Consumers Stock Performance



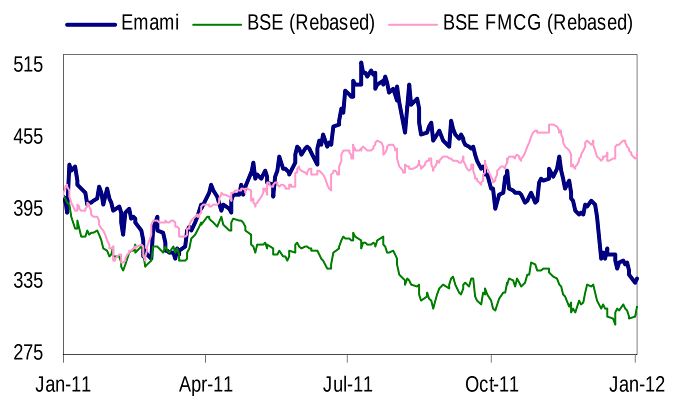
Source: Bloomberg

Exhibit 112 - GSK Consumers Stock Performance



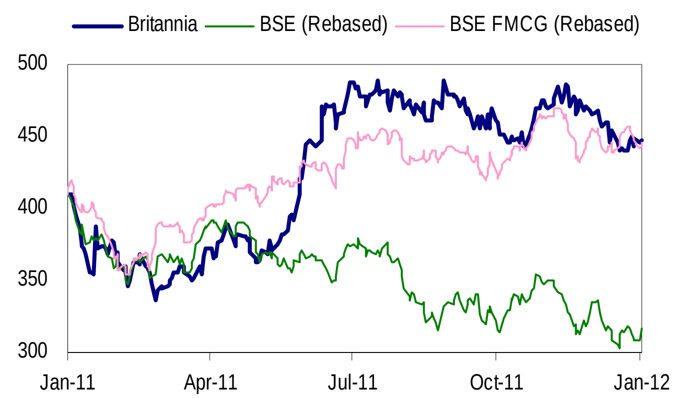
Source: Bloomberg

Exhibit 113- Emami Stock Performance



Source: Bloomberg

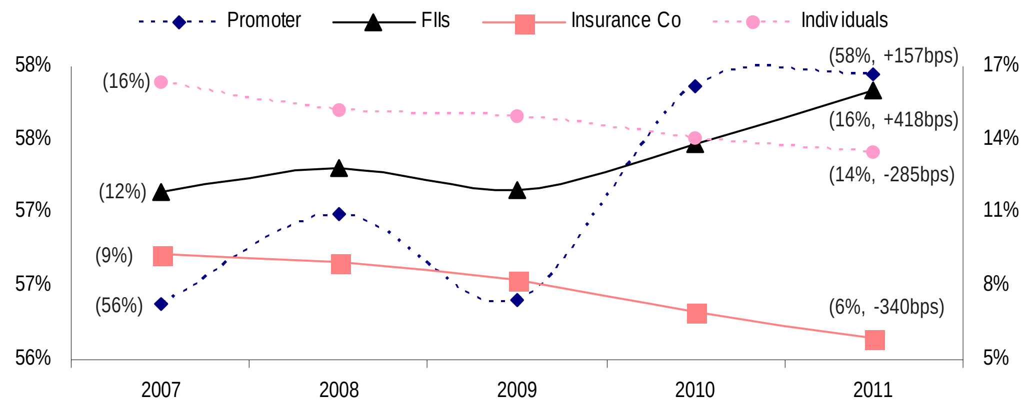
Exhibit 114 - Britannia Stock Performance



Source: Bloomberg

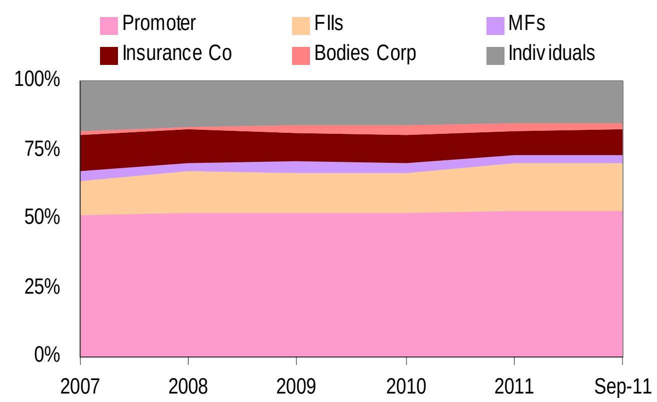
Shareholding Pattern - Higher FII Holdings

Exhibit 115 - Sector Weighted Shareholding Pattern (%) Ex-ITC



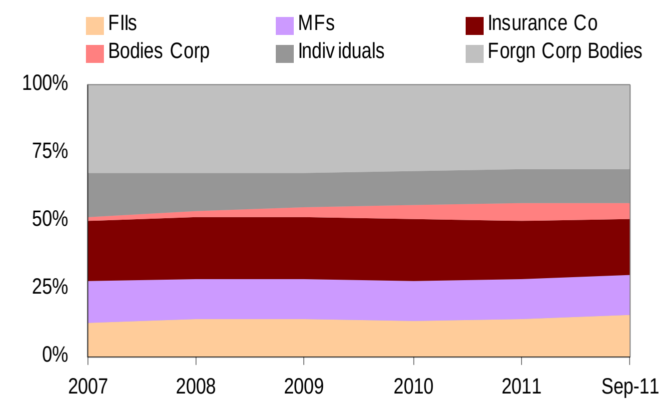
Source: PINC Research

Exhibit 116 - HUL Shareholding Pattern (%)



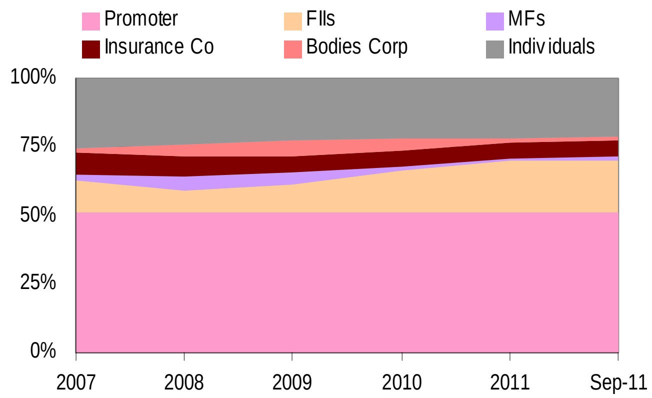
Source: PINC Research

Exhibit 117 - ITC Shareholding Pattern (%)



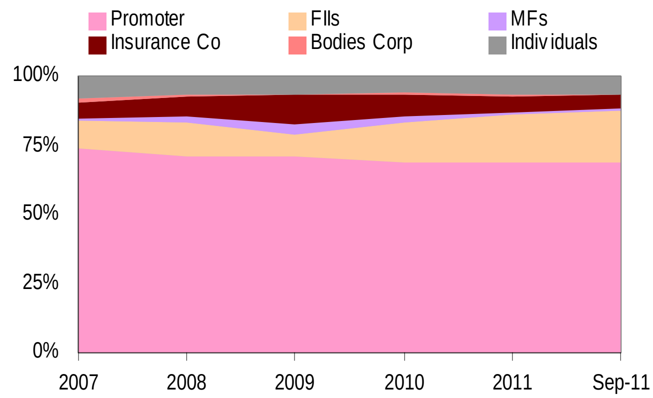
Source: PINC Research

Exhibit 118 - Colgate Shareholding Pattern (%)



Source: PINC Research

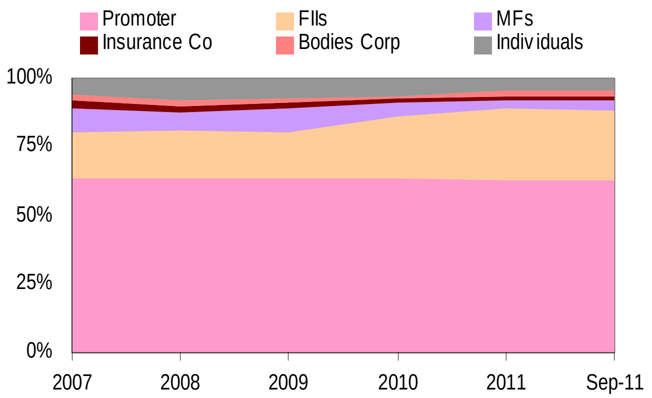
Exhibit 119- Dabur Shareholding Pattern (%)



Source: PINC Research

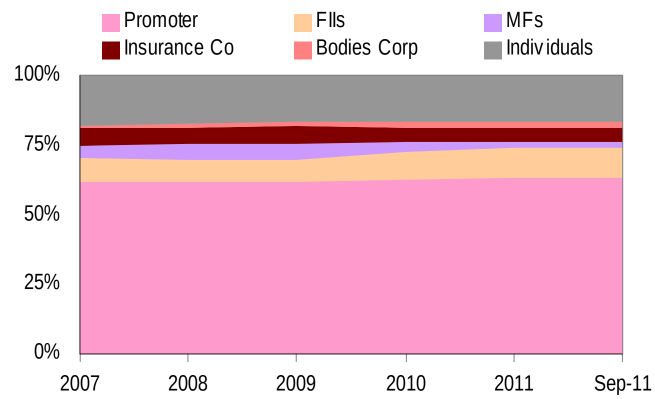
- Marico's FIIs stake has increased to 26% in Mar-11 from 17% in Mar-09; this resulted into lower stake with small shareholders.

Exhibit 120 - Marico Shareholding Pattern (%)



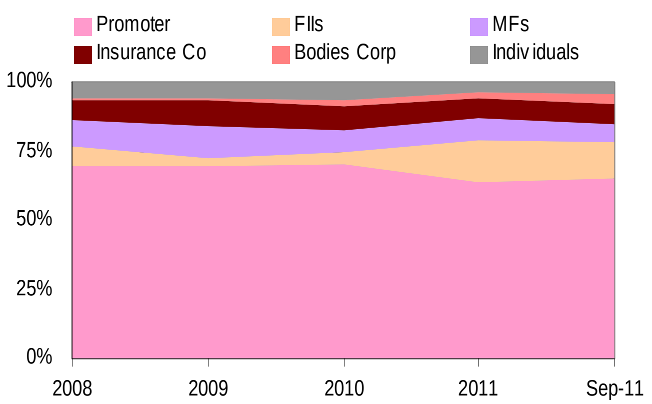
Source: PINC Research

Exhibit 121 - Nestle Shareholding Pattern (%)



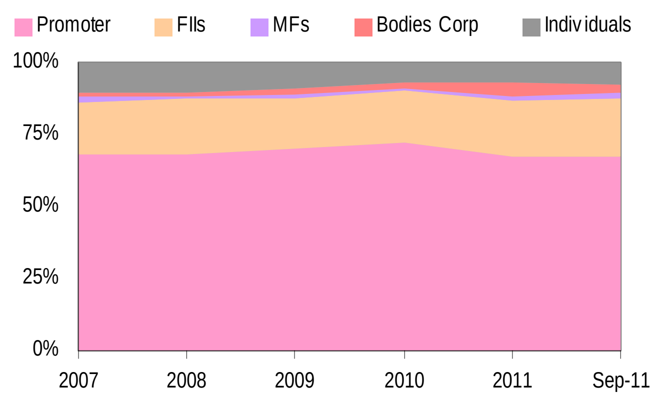
Source: PINC Research

Exhibit 122 - Jyothy Shareholding Pattern (%)



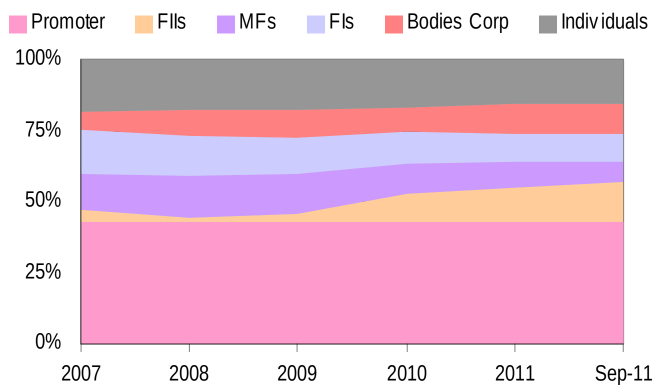
Source: PINC Research

Exhibit 123 - Godrej Cons. Shareholding Pattern (%)



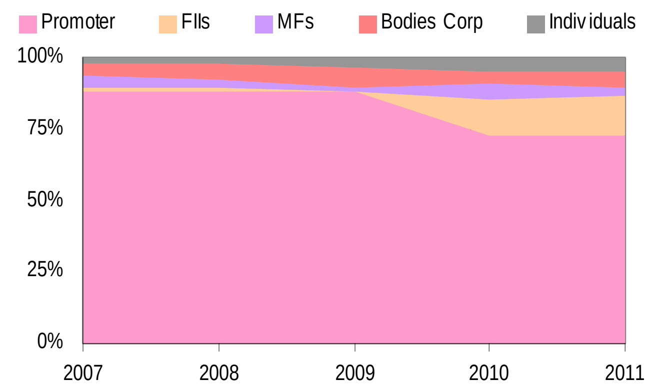
Source: PINC Research

Exhibit 124 - GSK Cons.Shareholding Pattern (%)



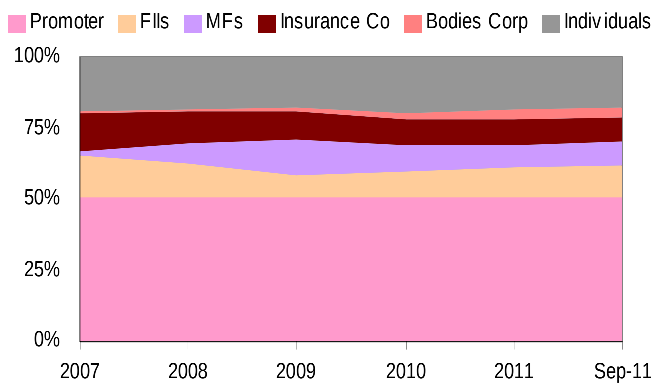
Source: PINC Research

Exhibit 125 - Emami Shareholding Pattern (%)



Source: PINC Research

Exhibit 126 - Britannia Shareholding Pattern (%)



Source: PINC Research

COMPANIES

- ITC
- HUL
- Nestle India
- Dabur India
- Colgate-Palmolive (India)
- Marico
- Jyothy Labs

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PINC RESEARCH

INITIATING COVERAGE

Initiating Coverage			BUY
Sector: FMCG	**ITC**	CMP	Rs202
BSE Sensex: 15,868		TP	Rs233

Cigarette still profitability lighter

ITC is a diversified conglomerate with a presence in cigarette, FMCG, hotel, paperboard and agribusiness. Despite its presence in various business segments, cigarette still draws a major part of profitability with +80% share in PBIT. We expect cigarette segment gross sales to show ~13% CAGR during FY11-14E driven by ~3% and ~10% CAGR in volume and price. Besides, superior performance of non cigarette business would help in achieving ~17% CAGR in net sales for ITC during FY11-14E. ITC's profitability should remain strong on the assumption of expansion of PBIT/cigarette, profitable conversion of FMCG business and retention of profitability by other segments. We expect net earnings to deliver ~19% CAGR during FY11-14E.

Cigarette dominance to persist

Compared to the other FMCG segment, cigarette has relatively low competitive pressure and ITC has retained its leadership position due to its extensive cigarette offering, large distribution and consumers' stickiness towards ITC brands. We expect ITC's strong pricing power would help in maintaining the healthy growth.

Superior performance of non cigarette business

FMCG business has grown 15x in past 8 years through consistent entry into new segments backed by aggressive marketing strategy of ITC. We expect segment to clock 20% CAGR during FY11-14E owing to better foothold of the existing portfolio and consistent investment in innovation. Paperboard and Agribusiness would maintain their robust growth and we expect 16% and 13% CAGR during FY11-14E respectively.

Profitability would remain high

ITC's profitability would remain strong on the assumption of expansion of PBIT/cigarette to 103paise in FY14E compared to 71paise in FY11, profitable conversion of FMCG business and retention of profitability by other segments.

VALUATIONS AND RECOMMENDATION

We value ITC using DCF methodology and arrive at a target price of Rs233. We believe relative valuation is not feasible as there is no appropriate comparable for ITC. The stock has 15% upside potential hence we initiate ITC with 'BUY' rating. As ITC has high dependence on cigarette business hence any significant change in the govt. regulation on cigarette can lead to change in our estimates.

KEY FINANCIALS (CONSOLIDATED)					(Rs mn)
	FY10	FY11	FY12E	FY13E	FY14E
Net Sales	191,359	222,737	267,694	309,394	355,647
YoY Gr. (%)	*15.6*	*16.4*	*20.2*	*15.6*	*14.9*
Op. Profits	62,730	74,208	91,485	106,812	122,803
OPM (%)	*32.8*	*33.3*	*34.2*	*34.5*	*34.5*
Adj. Net Profit	41,123	49,558	61,963	72,800	84,095
YoY Gr. (%)	*23.8*	*20.5*	*25.0*	*17.5*	*15.5*
KEY RATIOS					
Dil EPS (Rs)	5.3	6.4	8.0	9.4	10.9
ROCE (%)	42.7	44.4	45.6	44.5	43.0
RONW (%)	28.4	30.1	31.4	30.8	30.0
P/E (x)	38.0	31.5	25.2	21.5	18.6
EV/Sales (x)	7.8	6.7	5.6	4.7	4.0
EV/EBITDA (x)	23.9	20.1	16.2	13.6	11.6

09 January 2012

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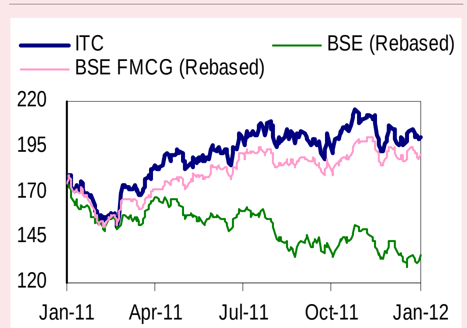
STOCK DATA

Market cap	Rs1,563bn
Book Value per share	Rs21
Shares O/S (F.V. Rs1)	7,738mn
Free Float	100%
Avg Trade Value (6 months)	Rs1,574mn
52 week High/Low	216/150
Bloomberg Code	ITC IN
Reuters Code	ITC.BO

PERFORMANCE (%)

	1M	3M	12M
Absolute	(2.1)	2.9	11.7
Relative	3.7	2.5	42.2

RELATIVE PERFORMANCE



INVESTMENT ARGUMENT

Cigarette growth to drive the overall profitability

In the last Union Budget there were no changes in the central excise duty structure which led to the expectation of higher volume growth for FY12. However, during the past 6 months, most of the states increased state VAT rate which forced ITC to increase cigarette prices on key brands. We anticipate moderate cigarette volume growth of 6% for FY12 which would help in expanding gross sales by ~16% during FY12. Further, better revenue mix and strong pricing power would help ITC to sustain this high growth in cigarette; we foresee ~13% gross sales CAGR during FY11-14E.

Better revenue mix, higher operational efficiency and significant cigarette price rise enabled ITC to expand PBIT per cigarette (stick) to 71paise in FY11 from 30paise in FY03. We expect profitability to remain high on account of focus on operational efficiency and pricing power due to low competitive intensity leading to expansion in PBIT/stick to 103paise by FY14E.

Exhibit 1 - Cigarette Profitability to Improve Further

	FY07	FY08	FY09	FY10	FY11	FY12E	FY13E	FY14E
Cig Volume Gr. (%)	7.1%	-0.7%	-2.9%	7.2%	-2.8%	6.1%	3.0%	1.0%
Cig Gross Price Gr. (%)	5.8%	8.5%	12.6%	6.7%	18.0%	8.9%	10.0%	9.9%
Cig Gross Sales Gr. (%)	13.3%	7.7%	9.3%	14.4%	14.7%	15.5%	13.3%	11.0%
Cig Net Sales Gr. (%)	16.1%	12.6%	13.9%	21.0%	15.8%	21.7%	14.4%	13.0%
Cig PBIT (Rs/stick)	0.39	0.45	0.53	0.59	0.71	0.82	0.91	1.03
Cig PBIT Gr.(%)	17.1%	14.6%	15.1%	18.0%	16.8%	23.1%	14.8%	13.8%
ITC EBIT Gr. (%)	19.3%	13.0%	9.6%	23.9%	20.2%	22.5%	16.8%	16.0%

Source: PINC Research, Company

Exhibit 2 - ITC's Business Mix

Segments	Net Sales Mix (%)			Sales CAGR (%)		PBIT Margin (%)			PBIT Mix (%)			PBIT CAGR (%)	
	FY08	FY11	FY14E	FY08-11	FY11-14E	FY08	FY11	FY14E	FY08	FY11	FY14E	FY08-11	FY11-14E
Cigarettes	47.8%	50.1%	49.6%	17.9%	17.4%	54.8%	54.5%	55.8%	83.3%	81.0%	78.4%	16.5%	17.0%
FMCG	18.7%	21.9%	24.0%	16.7%	16.1%	-10.5%	-6.7%	1.0%	-6.0%	-4.2%	0.7%	na	na
Hotels	7.3%	4.7%	4.2%	20.9%	20.2%	40.6%	26.6%	27.0%	9.4%	3.7%	3.2%	-13.3%	12.5%
Agribusiness	17.5%	13.1%	12.1%	-0.5%	12.3%	3.3%	11.9%	12.0%	3.0%	8.0%	6.8%	62.9%	12.4%
Paperboards, Paper & Packaging	8.7%	10.2%	10.1%	4.5%	13.3%	21.0%	23.4%	24.0%	10.4%	11.5%	10.8%	21.6%	16.0%

Source: PINC Research, Company

Low peer threat

Compared to the other FMCG segments, cigarette has relatively very low competitive pressure which has helped ITC to retain its leadership position in the market. Despite its premium pricing, ITC has succeeded in expanding volume and value market share by 500bps and 400bps to 75% and 83% respectively in the past 10 years. We expect ITC's cigarette dominance will remain high owing to its extensive cigarette offering, large distribution, consumers' stickiness towards brands and appropriate backward integration. The low profitability profile of other cigarette players will also restrict them to challenge ITC's leadership.

Exhibit 3 - Cigarette Gross Price (company level) Comparison (Rs/cig)

Company	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11
ITC	1.15	1.32	1.38	1.41	1.43	1.49	1.58	1.71	1.93	2.06	2.43
YoY Gr (%)		*14%*	*5%*	*2%*	*1%*	*4%*	*6%*	*8%*	*13%*	*7%*	*18%*
Godfey Phillips India	0.87	1.01	0.96	0.93	0.98	1.04	1.09	1.15	1.42	1.42	1.56
YoY Gr (%)		*17%*	*-5%*	*-3%*	*6%*	*6%*	*5%*	*6%*	*23%*	*0%*	*9%*
VST Industries	0.61	0.72	0.72	0.71	0.70	0.76	0.77	0.80	1.24	1.28	1.51
YoY Gr (%)		*18%*	*0%*	*-1%*	*-2%*	*8%*	*2%*	*4%*	*54%*	*3%*	*18%*
GTC Industries	0.52	0.50	0.46	0.45	0.43	0.42	0.45	0.46	0.77	0.68	0.73
YoY Gr (%)		*-4%*	*-8%*	*-2%*	*-3%*	*-4%*	*8%*	*4%*	*65%*	*-11%*	*7%*
Sector Realisaton	**1.00**	**1.15**	**1.19**	**1.21**	**1.23**	**1.30**	**1.38**	**1.49**	**1.79**	**1.89**	**2.19**
YoY Gr (%)		*15%*	*3%*	*2%*	*1%*	*6%*	*6%*	*8%*	*20%*	*6%*	*16%*

Source: PINC Research, Company

Pictorial warnings – negligible impact in the near term

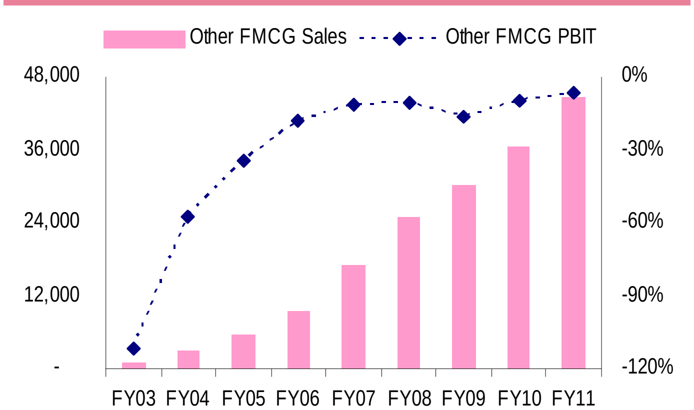
Cigarette pack is required to display a new set of pictorial warning from 1st Dec'11 and the new pictures are expected to be more gory and effective. However, we believe there would be no immediate impact on the cigarette consumption. The impact on the existing users would be insignificant due to their habits however we think it can restrict growth on the new users.

FMCG business gaining traction

Strong cash flows from cigarette business resulted into better appetite for the FMCG business. ITC has swallowed Rs21bn operational loss to achieve 15x sales growth to Rs45bn in the past 8 years. No other FMCG player has that strong profitable segment which can help them in expanding into other segments. ITC consistently entered into new segments and has now become a critical player in the FMCG market too.

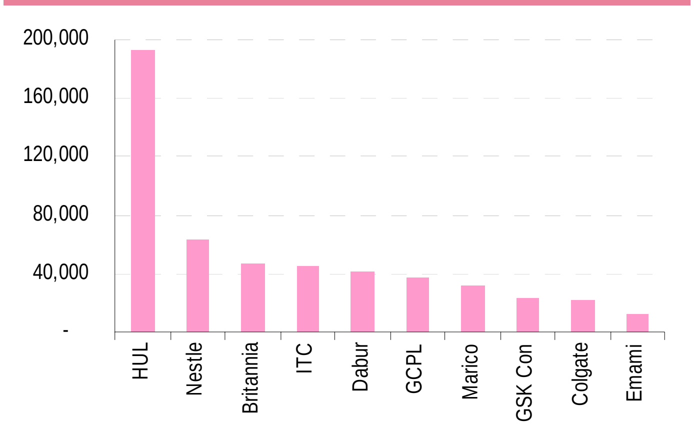
We are encouraged by 240bps decline in PBIT loss (% of sales) during H1FY12 to ~5% of sales, particularly when input prices are facing high inflation. Retention of high sales growth along with reduction in operational losses is remarkable in our opinion. We believe 'Branded Packaged Food' and 'Stationary' businesses are profitable while losses in 'Lifestyle Retailing' and 'Personal Care' businesses are impacting the overall profitability of the segment. On account of softening of input prices and better growth in the profitable businesses, we expect FMCG segment would further reduce the losses and should achieve breakeven in FY13.

Exhibit 4 - Strong Performance of FMCG Segment



Source: PINC Research, Company

Exhibit 5 - Significant Presence in FMCG Market



Source: PINC Research, Company

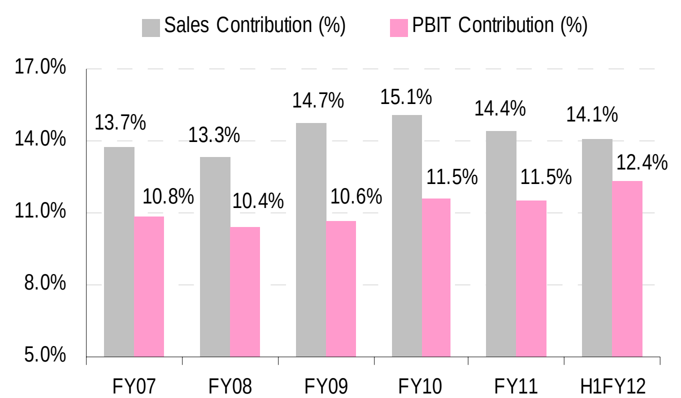
Better contribution from Paper and Agribusiness

ITC's paperboard business is a backward integration of cigarette business while agribusiness is largely a cross selling of unmanufactured tobacco. ITC's 95% inter segment sales comes from these two segments.

ITC improved agribusiness profitability through develop strong network with farmers. Through 'e-Choupal' ITC is now connected with more than 4mn farmers in 40,000 villages in 10 states. Further development of 'e-Choupal' and other agri initiatives would expand the agribusiness.

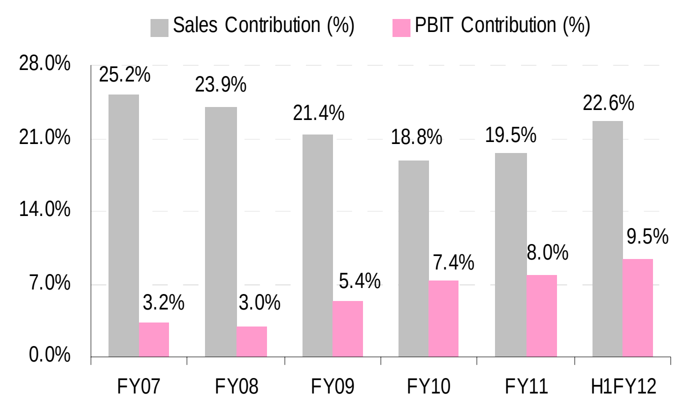
ITC's paper business performance also improved through focusing on the value-added products. We expect higher contribution from the value-added products would further improve the margin profile of the business.

Exhibit 6 - Paperboard Contribution in Sales & PBIT



Source: PINC Research, Company

Exhibit 7 - Agribusiness Contribution in Sales & PBIT



Source: PINC Research, Company

VALUATIONS AND RECOMMENDATION

We value ITC using DCF methodology and arrive at a target price of Rs233. We believe relative valuation is not feasible as there is no appropriate comparable for ITC.

Cigarette business is not comparable with domestic as well as global players. ITC dominate with 83% market share in the domestic cigarette market and its business model is far superior which is appropriately backward integrated. Therefore, apart from the disparity in sales, ITC's profitability is also not comparable with other domestic players.

Exhibit 8 - Domestic Cigarette Player Comparison

	ITC	Godfrey Phillips	VST Industries
Net Sales (Rs mn) - FY11	105,737	16,025	5,784
EBITDA Margin (%) - FY11	54.5	18.3	23.7
Market Cap (Rs bn)	1,577	26	17

Source: PINC Research

We also compare ITC with global players but we found that the comparison with global players is also not appropriate. Global players are facing volume pressure and their profitability is also lower than ITC.

Exhibit 9 - Global Cigarette Comparison

		Revenue Gr.			EBITDA Margin			Net Income Gr.			ROE (%)			P/E (x)			EV/EBITDA (x)		
	Mkt Cap (USD mn)	2010	2011E	2012E	2010	2011E	2012E	2010	2011E	2012E	2010	2011E	2012E	2,010	2011E	2012E	2,010	2011E	2012E
PHILIP MORRIS INTERNATIONAL	136,371	10%	12%	2%	45%	47%	48%	12%	19%	4%	146.0	267.0	489.0	20.0	16.2	15.0	12.5	10.5	10.2
BRITISH AMERICAN TOBACCO PLC	92,709	13%	1%	4%	37%	39%	40%	22%	8%	8%	42.0	40.5	41.6	17.5	15.7	14..3	12.7	11.5	10.8
ALTRIA GROUP INC	61,117	1%	0%	1%	40%	42%	43%	8%	6%	6%	88.0	89.0	101.0	15.6	14.6	13.6	10.5	10.1	9.6
JAPAN TOBACCO INC	46,945	15%	-62%	2%	9%	25%	26%	28%	55%	19%	9.6	14.3	16.6	21.0	16.6	13.7	7.8	7.4	6.8
IMPERIAL TOBACCO GROUP PLC	37,621	-2%	-1%	4%	42%	43%	43%	5%	4%	6%	24.7	25.0	25.9	13.0	11.8	10.9	10.2	9.6	9.2
REYNOLDS AMERICAN INC	24,307	3%	0%	1%	31%	34%	35%	4%	14%	5%	20.4	23.6	26.1	16.6	15.1	14.0	9.7	9.0	8.5
GUDANG GARAM TBK PT	12,907	25%	7%	11%	17%	19%	19%	41%	17%	15%	19.8	22.0	22.0	28.9	23.0	20.0	19.0	15.6	13.7

Source: Bloomberg, PINC Research

Our DCF methodology assumes 18% and 15% FCF growth during first and second 5 years post FY14. Our strong cash flow assumption is based on ITC's robust past performance and low peer threat on its high margin cigarette business. Based on our assumptions, we derive a DCF value of Rs233/share in which terminal value accounts for 52%.

Exhibit 10 - DCF Sensitivity

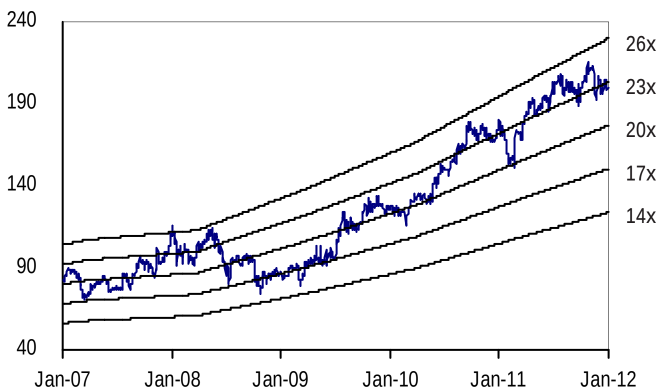
		Cost of Equity				
		11.0%	11.5%	12.0%	12.5%	13.0%
Terminal Growth Rate	2.0%	253	236	220	206	193
	2.5%	262	243	226	211	198
	3.0%	272	251	233	217	203
	3.5%	283	261	241	224	209
	4.0%	295	271	250	231	215

Source: PINC Research

ITC's past 5 years history suggest that the stock was on an average trades at 22x 12-month forward earnings. Our DCF based target price is valued at 25x 12-month forward earning which is 14% premium over past 5 year average P/E. At our target multiple, ITC's P/E discount over FMCG sector P/E is at 9% as compared to past 5 years' average discount of 12%. At our valuation, ITC still maintain its valuation discount over sector which is largely because of high government regulation in ITC's cigarette business.

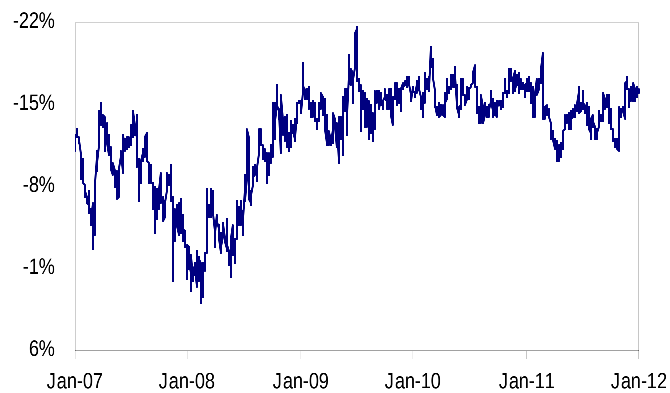
We believe our valuations are well justified given low peer threat in the cigarette business and expectation of superior performance of its non-cigarette business. The stock has 15% upside potential at our TP of Rs233, hence we initiate ITC with 'BUY' rating.

Exhibit 11 - ITC P/E Band



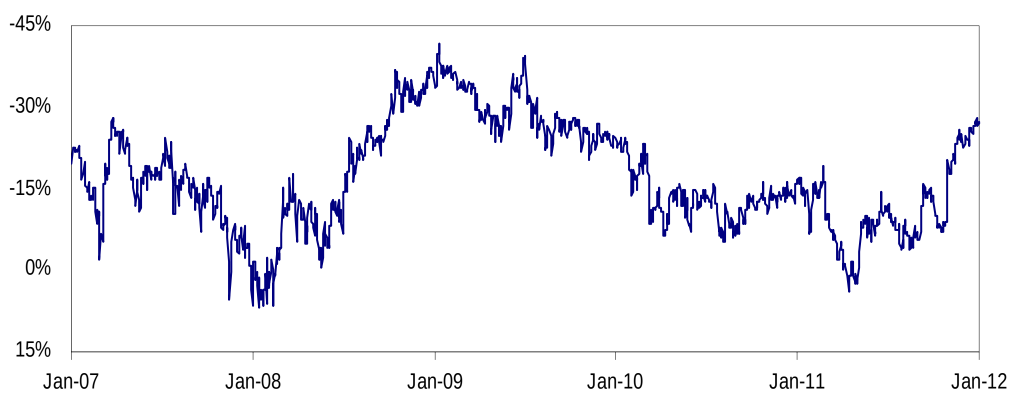
Source: PINC Research, Bloomberg

Exhibit 12 - ITC Valuations Discount v/s FMCG Sector



Source: PINC Research, Bloomberg

Exhibit 13 - ITC Valuations Discount v/s HUL



Source: PINC Research, Bloomberg

Cigarette Business - dominance to continue

ITC has a strong hold in the cigarette segment with brands like Gold Flake, Classic, Wills, India Kings, Lucky Strike, 555, Players, Insignia, Navy Cut, Scissors, Bristol and B&H. The wide range of products and strong distribution channel has led ITC to garner ~75% and ~83% volume and value market share in the cigarette industry. We expect ITC to deliver ~3% and ~10% CAGR in volume and price respectively during FY11-14E.

Exhibit 14 - Cigarette Performance

Particulars	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12E	FY13E	FY14E
Gross Sales (Rs mn)	80,136	87,568	92,236	99,964	113,229	128,244	138,155	151,009	172,779	198,212	229,004	259,503	288,101
YoY Gr. (%)	*4.4%*	*9.3%*	*5.3%*	*8.4%*	*13.3%*	*13.3%*	*7.7%*	*9.3%*	*14.4%*	*14.7%*	*15.5%*	*13.3%*	*11.0%*
Volume (mn no)	60,865	63,415	65,387	69,998	75,894	81,265	80,723	78,370	84,040	81,723	86,708	89,309	90,202
YoY Gr. (%)	*-8.4%*	*4.2%*	*3.1%*	*7.1%*	*8.4%*	*7.1%*	*-0.7%*	*-2.9%*	*7.2%*	*-2.8%*	*6.1%*	*3.0%*	*1.0%*
Gross Price (Rs/cig)	1.32	1.38	1.41	1.43	1.49	1.58	1.71	1.93	2.06	2.43	2.64	2.91	3.19
YoY Gr. (%)	*14.0%*	*4.9%*	*2.2%*	*1.2%*	*4.5%*	*5.8%*	*8.5%*	*12.6%*	*6.7%*	*18.0%*	*8.9%*	*10.0%*	*9.9%*
PBIT (Rs mn)	16,931	19,235	20,333	22,888	27,088	31,722	36,340	41,838	49,381	57,668	70,985	81,494	92,749
YoY Gr. (%)		*13.6%*	*5.7%*	*12.6%*	*18.3%*	*17.1%*	*14.6%*	*15.1%*	*18.0%*	*16.8%*	*23.1%*	*14.8%*	*13.8%*
PBIT/Cig	0.28	0.30	0.31	0.33	0.36	0.39	0.45	0.53	0.59	0.71	0.82	0.91	1.03
YoY Gr. (%)		*9.0%*	*2.5%*	*5.2%*	*9.2%*	*9.4%*	*15.3%*	*18.6%*	*10.1%*	*20.1%*	*16.0%*	*11.5%*	*12.7%*

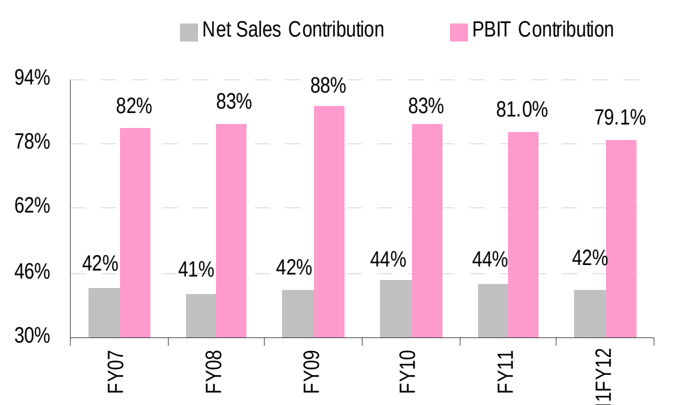
Source: Bloomberg, PINC Research

ITC reported strong 11.8% CAGR in gross sales during FY06-11 which was substantially ahead of 8.1% CAGR during FY01-06. Cigarette volume grew by mere 1.5% during the past 5 years and that suggested that realisation growth played a big role in the sales growth. ITC achieved better realisation growth through conscious price hike and achievement of better product mix. The swing in the consumers' buying power in the past 5 years has also helped ITC to pass on extra cost burden.

Still a key profitable segment

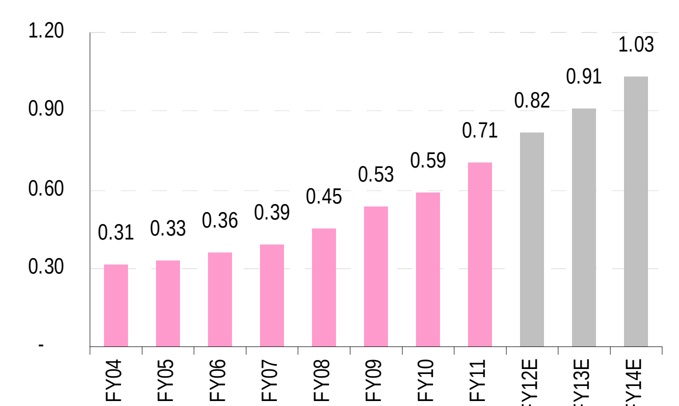
Although cigarette contributes 44% of the total net sales of ITC, its contribution in the profitability is significantly higher at >80% of the total PBIT. Better raw material sourcing, appropriate backward integration, better revenue mix and substantial cigarette price growth has enabled ITC to improve the PBIT/cig.

Exhibit 15 - Cigarette Contribution in Sales and PBIT



Source: PINC Research, Company

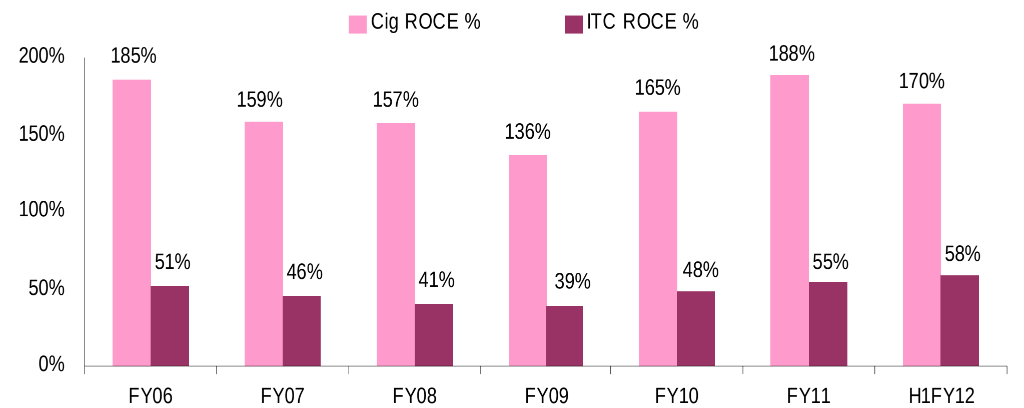
Exhibit 16 - PBIT/Cigarette (Rs/stick)



Source: PINC Research, Company

Loss in FMCG segment and single digit ROCE of Hotel business wiped off the benefits of strong cigarette ROCE …

Exhibit 17 - Wide difference between Cigarette and ITC's ROCE (%)



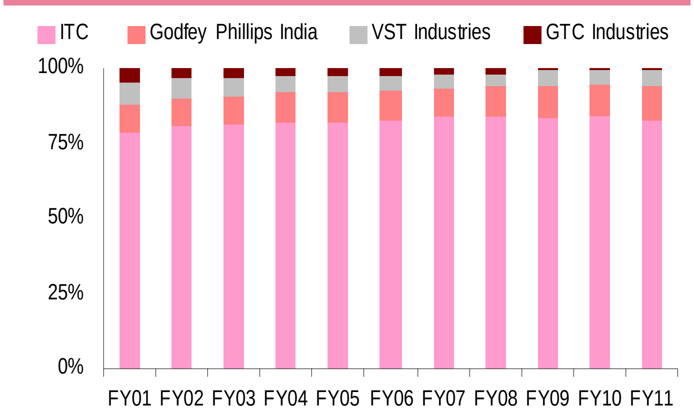
Source: PINC Research, Company

ITC's strong positioning in the cigarette market

ITC is an undisputed leader in the cigarette market with 75% and 83% volume and value market share respectively. Despite ITC's premium pricing over the other cigarette brands, strong distribution and better product offering enabled ITC to expand volume market share by 500bps in the past decade.

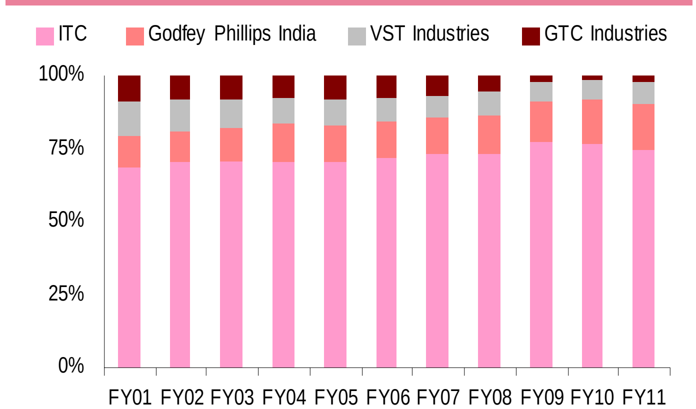
We believe ITC would be able to retain its cigarette market share owing to extensive product offering, strong distribution network, appropriate backward integration and superior profitability. Which is why, apart from couple of years like FY11 most of the time ITC expanded in volume and value market share.

Exhibit 18 - Cigarette Value Market Share (%)



Source: PINC Research, Company

Exhibit 19 - Cigarette Volume Market Share (%)



Source: PINC Research, Company

Exhibit 20 - Cigarette Gross Price (company level) Comparison (Rs/cig)

Company	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11
ITC	1.15	1.32	1.38	1.41	1.43	1.49	1.58	1.71	1.93	2.06	2.43
YoY Gr (%)		*14%*	*5%*	*2%*	*1%*	*4%*	*6%*	*8%*	*13%*	*7%*	*18%*
Godfey Phillips India	0.87	1.01	0.96	0.93	0.98	1.04	1.09	1.15	1.42	1.42	1.56
YoY Gr (%)		*17%*	*-5%*	*-3%*	*6%*	*6%*	*5%*	*6%*	*23%*	*0%*	*9%*
VST Industries	0.61	0.72	0.72	0.71	0.70	0.76	0.77	0.80	1.24	1.28	1.51
YoY Gr (%)		*18%*	*0%*	*-1%*	*-2%*	*8%*	*2%*	*4%*	*54%*	*3%*	*18%*
GTC Industries	0.52	0.50	0.46	0.45	0.43	0.42	0.45	0.46	0.77	0.68	0.73
YoY Gr (%)		*-4%*	*-8%*	*-2%*	*-3%*	*-4%*	*8%*	*4%*	*65%*	*-11%*	*7%*
Sector Realisaton	1.00	1.15	1.19	1.21	1.23	1.30	1.38	1.49	1.79	1.89	2.19
YoY Gr (%)		*15%*	*3%*	*2%*	*1%*	*6%*	*6%*	*8%*	*20%*	*6%*	*16%*

Source: PINC Research, Company

Better raw material sourcing, appropriate backward integration and substantial price premium has enabled ITC to engender strong profitability among cigarette peers.

Tobacco cost comparison

Particulars (Rs/kg)	FY09	FY10	FY11
ITC	76	104	110
Godfrey Phillips	85	118	126
VST Industries	81	110	104

Source: PINC Research, Company

Cigarette EBITDA Margin Comparison

Companies	FY09	FY10	FY11
ITC	55%	54%	55%
Godfrey Phillips	15%	12%	18%
VST Industries	18%	15%	24%

Source: PINC Research, Company

Exhibit 21 - Mkt Share of Top 10 Cig Brands in India - Retail Volume

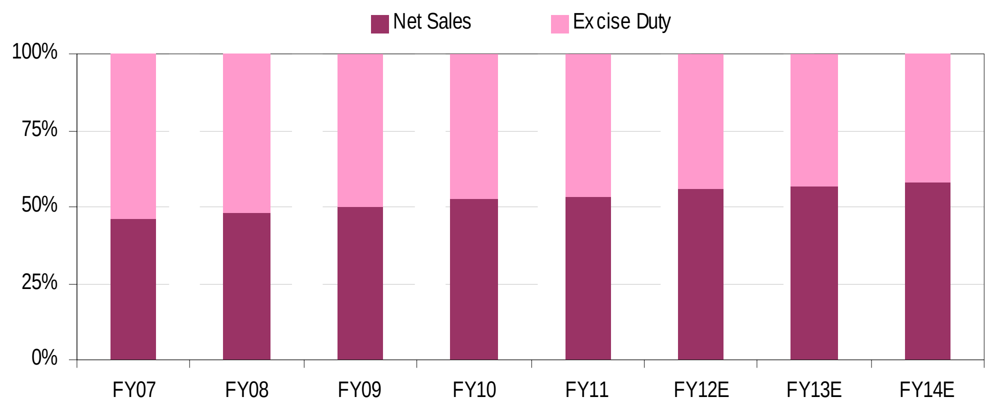
Brand	Company	Mkt Share (%)
Gold Flake	ITC Group	31.2%
Wills	ITC Group	18.2%
Scissors	ITC Group	8.4%
Four Square	Godfrey Phillips India	7.9%
Capstan	ITC Group	7.4%
Bristol	ITC Group	6.9%
Charminar	VST Industries	4.0%
Red & White	Godfrey Phillips India	3.0%
Charms	VST Industries	3.0%
Cavenders	Godfrey Phillips India	2.5%

Source: PINC Research, Industry data for 2009

Low dependence on tobacco prices

Tobacco by weight contributes ~75% of a cigarette however in value terms it is insignificant at <7% of net cigarette realisation. Our analysis suggests that tobacco, cigarette paper and filter rods accounts <10% of net cigarette realisation. Therefore, raw material has low sensitivity on cigarette profitability. As taxes constitute large part of the cigarette prices its sensitivity over cigarette profitability is high.

Exhibit 22 - Gross Sales Breakup



Source: PINC Research, Company

FDI ban is relief for the domestic manufacturers

In 2010, Indian government has banned fresh FDI in the cigarette manufacturing and this has shut the doors on foreign companies such as Japan Tobacco, BAT and Altria group. It is positive for ITC as it restricts the possibility of rise in the competition.

In addition, Indian government is also looking into a proposal to ban FDI in the wholesale marketing arms of the foreign cigarette companies.

Following, Japan Tobacco Inc (JT) is closing its joint venture (JT International Indian Pvt Ltd.) from India by 31st Dec, 2011 and has surrendered its license to the Indian government. Its sales was insignificant and was selling close to 300mn sticks per year which is <0.5% of the Indian market.

Higher involvement of Health Ministry

The tobacco related death in India is among the highest in the world and accounts ~16% of total world wide deaths. Higher consumption of bidi and chewing tobacco are the key reasons for such high death toll. India's Health Ministry is being cautious in the recent time and trying control tobacco consumption through rise in taxes, nationwide ban on smoking in public places and implementation of more gory and effective pictures on cigarette pack. However, we believe these actions are still not very effective and not serving the purpose. Health Ministry's higher involvement and strong actions is always a threat for the cigarette sector.

In addition, a panel of experts also recommended a sharp 26% tax rise on bidis to 33% while suggested 15% tax rise on cigarette to 58%.

Winter season to lead near term growth

We expect H2FY12 to be strong in terms of sales as well as profitability. We noticed that during winter season, cigarette sales and PBIT creates a significant difference between the first half and second half year performance. Recent cigarette price rise along with seasonal volume advantage should translate into strong cigarette profitability in H2FY12.

Exhibit 23 - Cigarette Sales and PBIT Difference between H1 and H2 of the Fiscal Year

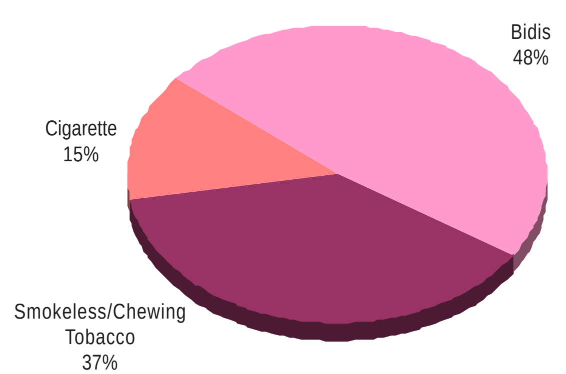
	H1FY06	H2FY06	H1FY07	H2FY07	H1FY08	H2FY08	H1FY09	H2FY09	H1FY10	H2FY10	H1FY11	H2FY11
Gross Sales Contribution (%)	49.1%	50.9%	48.8%	51.2%	48.6%	51.4%	48.1%	51.9%	48.3%	51.7%	47.8%	52.2%
PBIT Contribution (%)	50.9%	49.1%	50.5%	49.5%	49.6%	50.4%	47.0%	53.0%	48.1%	51.9%	47.9%	52.1%
Sales contribution diff (bps)		173bps		243bps		289bps		388bps		345bps		437bps
PBIT contribution diff (bps)		-171bps		-102bps		78bps		591bps		373bps		417bps

Source: PINC Research, Company

Other Tobacco Products

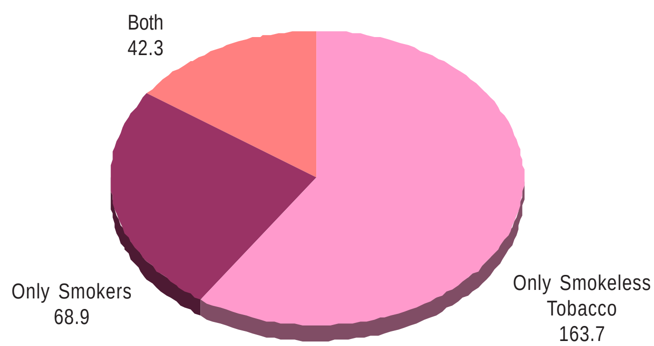
Other tobacco products like Bidi and chewing tobacco contributes ~85% of the total tobacco consumption with bidi forming 48% of the total consumption. Wide difference between cigarette and bidi taxes resulted into substantial price gap. Although, bidi forming largest share in the tobacco consumption; its share in the excise revenue is mere 5-7%.

Exhibit 24 - Tobacco consumption Pattern (%)



Source: Industry

Exhibit 25 - Tobacco Users in India (mn)



Source: Press Information Bureau, GOI

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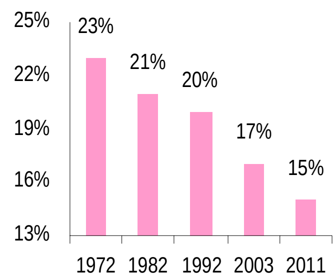
Exhibit 26 - Wide Difference in Bidi and Cigarette Excise Duty Structure

Excise Duty Rate (Rs/1000 sticks)	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Bidi															
Handmade	7	7	7	8	9	9	9	9	9	12	14	12	12	12	12
Machine-made	16	16	16	17	19	19	19	19	19	22	26	30	30	30	30
Cigarette															
Non-fileter ?60mm	90	100	110	115	135	135	135	135	150	160	168	819	819	819	669
Non-fileter >60mm	350	370	370	390	450	450	450	450	495	520	546	1,323	1,323	1,323	1,473
Filter ?70mm	500	550	550	580	670	670	670	670	740	780	819	819	819	969	969
Filter >70-75mm	820	900	900	945	1,090	1,090	1,090	1,090	1,200	1,260	1,323	1,323	1,323	1,473	1,473
Filter >75-85mm	1100	1,200	1,200	1,260	1,450	1,450	1,450	1,450	1,595	1,675	1,759	1,759	1,759	1,959	1,959
Filter >85mm	1350	1,470	1,470	1,545	1,780	1,780	1,780	1,780	1,960	2,060	2,163	2,163	2,163	2,363	2,363

Source: PINC Research, CBEC

Tobacco Consumption by Cigarette



Source: PINC Research, Company

Bidi: Cigarette Ratio=8:1

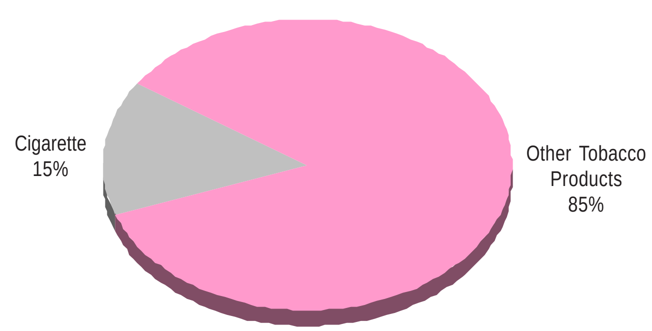
Tax rise on other tobacco products is positive

The differential tax treatment for cigarette and other tobacco products has always posed a challenge for the cigarette industry. It led to a fall in cigarette's share in the total tobacco consumption from about 25% in the 1970s to about 15% currently. Other tobacco products are more harmful than cigarette although tax levy on these are significantly low.

Recently some of the states have included other tobacco products under schedule 'D' and imposed the VAT rate similar to cigarette item during their recent budget. Besides, a panel of experts also recommended sharp 26% tax rise on Bidis to 33% while on cigarette they suggested 15% tax rise to 58%.

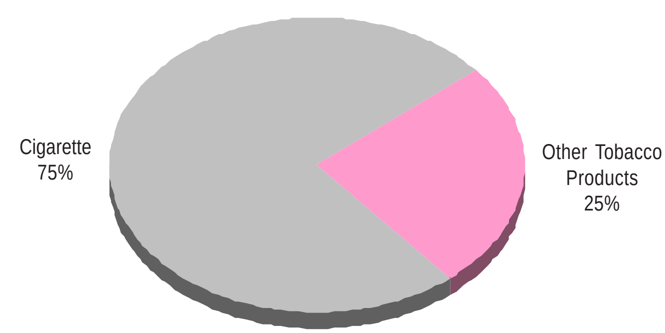
We believe rise in taxes on other tobacco products would not materially change in the consumption mix as cigarette and other products have significant price difference. However, we expect tax revenue mix would be more balanced and subsequently reduce the pressure on cigarette.

Exhibit 27 - Tobacco Consumption Share (%)



Source: Company

Exhibit 28 - Tobacco Tax Revenue Share (%)

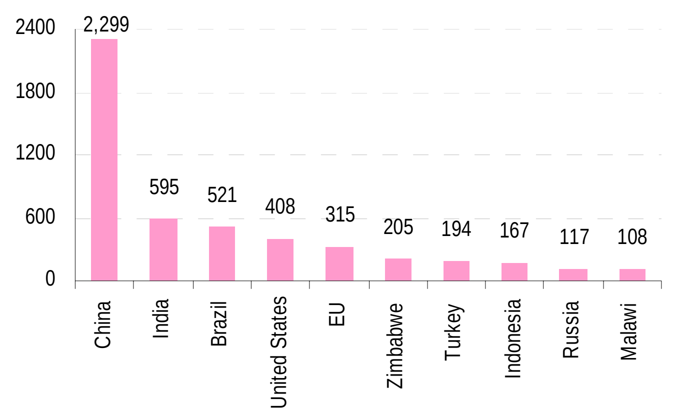


Source: Company

How Indian cigarette market is different than the global market

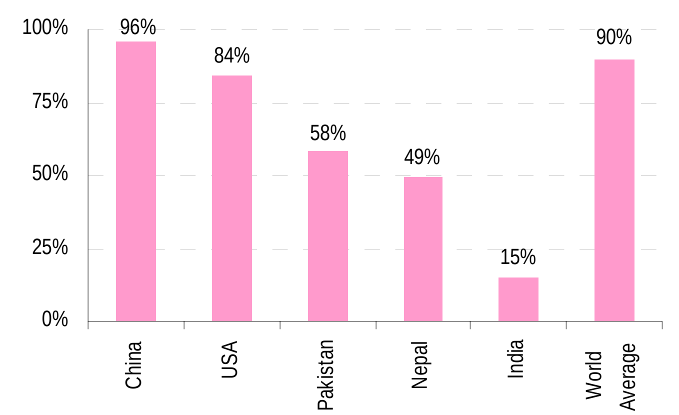
- Indian cigarette market is widely different than the world market. India is among the lead player in terms of tobacco production and consumption while its cigarette share in the world market is <2%. In India, Cigarette accounts mere ~15% of the tobacco consumption as compared to the world average of ~90%. Large part of the difference is on account of high tax differential between cigarette and other tobacco products i.e. Bidi and chewing tobacco.

Exhibit 29 - Tobacco Production (000 tons)



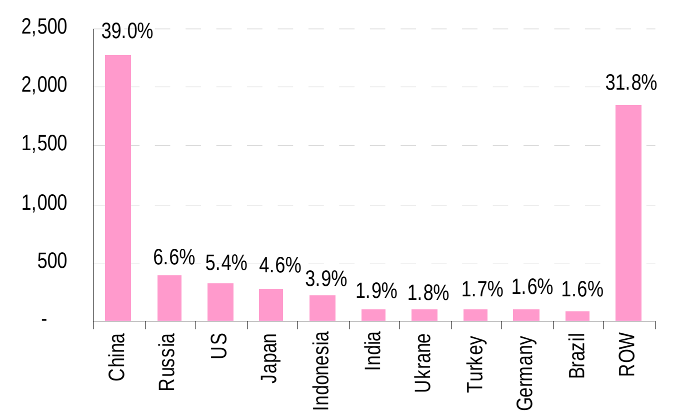
Source: PINC Research, Industry

Exhibit 30 - Cigarette's Share in Tobacco Consumption



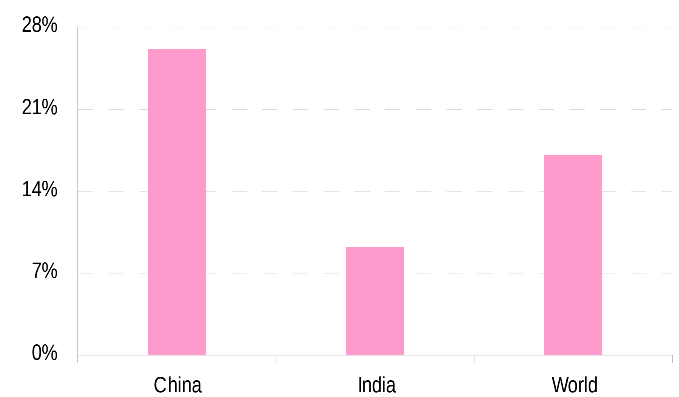
Source: PINC Research, Industry

Exhibit 31 - Global Cigarette Volume Share (%)



Source: PINC Research, Industry

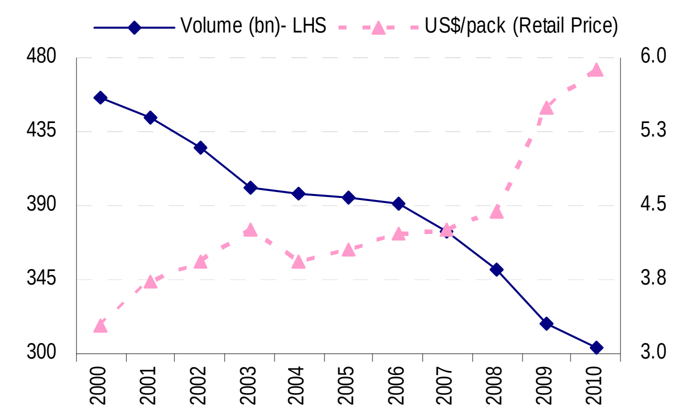
Exhibit 32 - Smokers as % of Population



Source: PINC Research, Industry

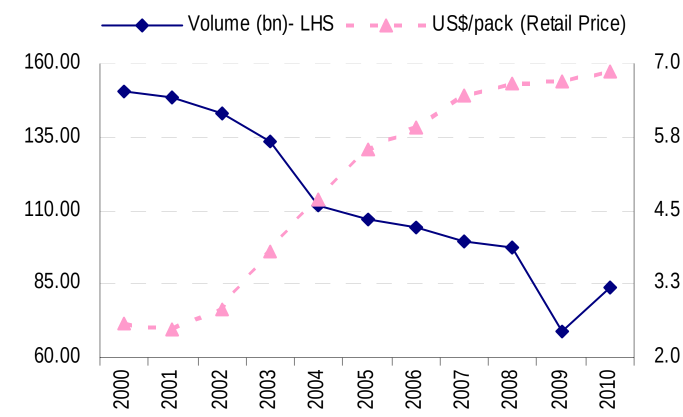
- Globally, several developed markets are reporting volume decline owing to consistent cigarette price rise, higher taxes and government's health awareness programme. US and Germany have witnessed substantial decline in cigarette volume in the past decade due to steady price rise in cigarettes. Japanese market is also facing severe pressure due to recent 40% rise in taxes during 2010 and as per BAT presentation, the Japanese market can show 17% volume decline in 2011.
- Indian cigarette market is different than other nations as cigarette contributes mere 15% of the total tobacco consumption compared to world average of 90%. Cigarette grew by slower volume as compared to other tobacco products due to consistent rise in taxes on cigarette. Taxes already contributes 50% of the cigarette price therefore to control the cigarette consumption further tax upside is limited. Other tobacco products are more dangerous for health and taxes still not a portion of price. Therefore tax rise probability is higher with other tobacco products than cigarette.

Exhibit 33 - US Cigarette Market



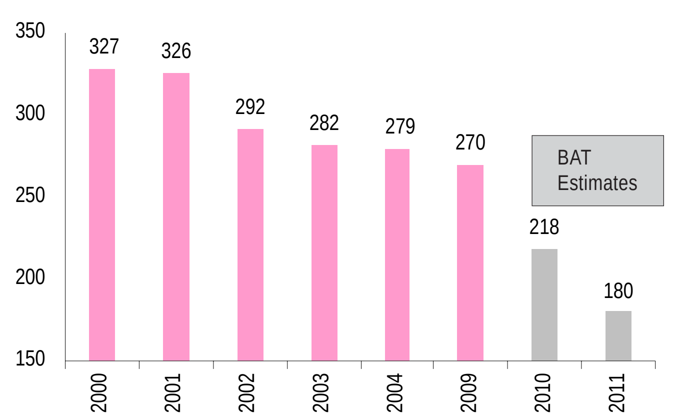
Source: Tobacco Merchants Association

Exhibit 34 - Germany Cigarette Market



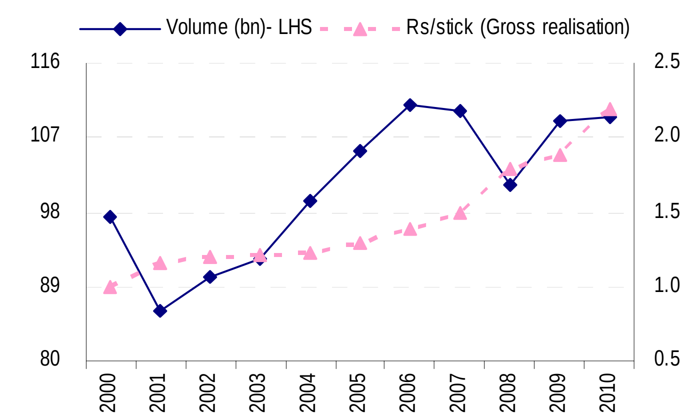
Source: Tobacco Merchants Association

Exhibit 35 - Japan Cigarette Volume (bn)



Source: Tobacco Merchants Association, Industry

Exhibit 36 - India Cigarette Market



Source: PINC Research

- Illicit market is high in the low or middle income countries that accounts for ~78% of the total cigarette consumption and <80% of the global illicit market. Smuggling impacts government tax revenue and increase death toll as low price cigarette has higher share in smuggling. Illicit is a big challenge all over the world as it accounts for ~12% of the global consumption. India is also among the largest smuggling countries and ~15% of the consumption is illegal.

Exhibit 37 - World Illicit Trade

World Bank Income Group	Illicit Cig Mkt (Bn Cig)	Illicit Cig Contribution	(% of Cig Consumption)	Total Cig Consumption (bn Cig)	Cig Consumption Share
High Income Countries	124	19%	10%	1,265	22%
Low and Middle Income Countries	533	81%	12%	4,405	78%
Total Illicit Market	657		12%	5,670	

Source: PINC Research, World Lung Foundation 2007

Exhibit 38 - Top Countries for Illicit Consumption

Countries	Illicit Trade (Bn Cig)	% of Consumption	World Bank Income Group
China	214	~9%	Low or Middle
Russian Federation	76	~23%	Low or Middle
United States	62	~20%	High
EU	58	~13%	High
Brazil	38	~35%	Low or Middle
Philippines	19	~19%	Low or Middle
India	18	~15%	Low or Middle
Indonesia	14	~6%	Low or Middle
Pakistan	13	~17%	Low or Middle
Turkey	12	~11%	Low or Middle

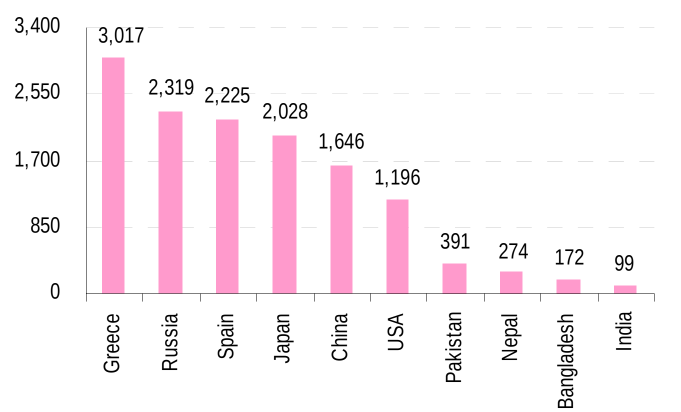
Source: PINC Research, World Lung Foundation 2007

What do we expect?

What makes us to assume that absolute cigarette consumption in India would grow or maintain its current level in the medium term?

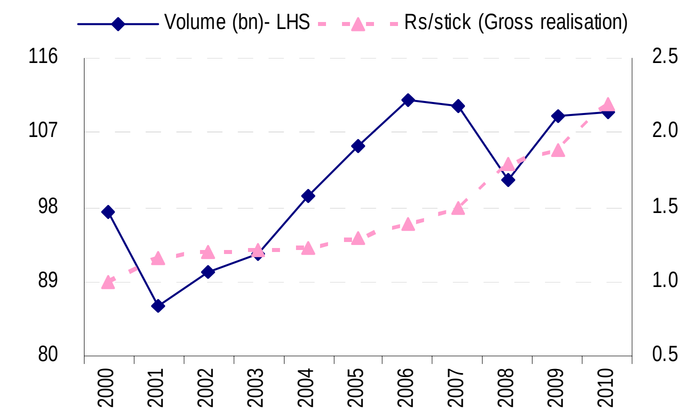
- Most of the nations have witnessed absolute decline in the cigarette consumption while we believe Indian cigarette market would continue to grow or maintain its current consumption level in the medium term. India's per capita cigarette consumption per year is among the lowest in the world. Here, we don't argue for any dramatic change in the per capita consumption pattern as the cigarette market is set since so many years. However, there is a definite scope of improvement and slight improvement in the per capita consumption would be favourable for the Indian cigarette market.

Exhibit 39 - Number of Cigarettes Per Adult Per Year



Source: WHO

Exhibit 40 - Indian Cigarette Market



Source: PINC Research, Company, Industry

We expect higher probability of tax rise on other tobacco products…

- Although, cigarette share in the Indian tobacco consumption has consistently reduced and reached to 15%; absolute cigarette consumption has improved albeit at a slower pace. The wide difference between prices of cigarette and other tobacco products resulted into higher demand for other tobacco products. Cigarette share in world tobacco consumption is ~90% which means our tobacco consumption pattern is almost opposite as compared to other countries. We don't expect any drastic change in the consumption pattern however, as other tobacco products have a lion's share in the total tobacco consumption we see higher probability of tax rise on other tobacco products. This would reduce the imbalance between tobacco consumption and tax mix and would subsequently reduce the tax pressure on cigarette.

Higher youth income has relevance for the cigarette demand…

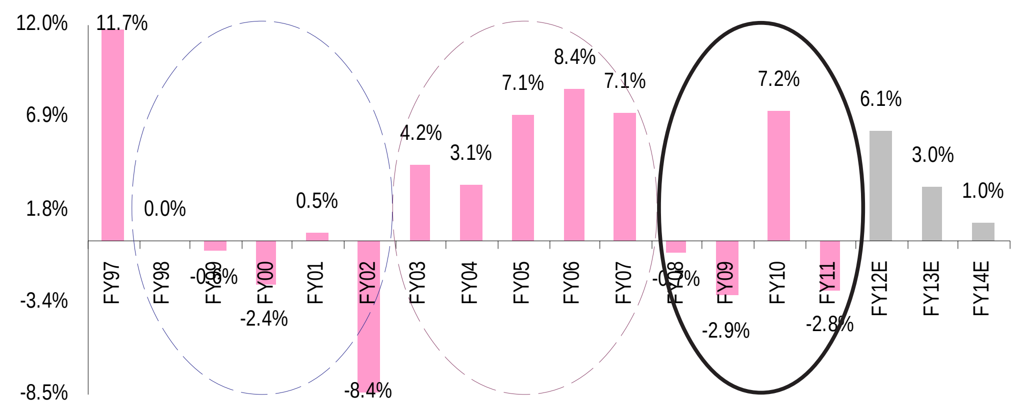
- The rapid change in the youth culture is also positive for the cigarette industry. There is a visible sign of rise in the youth income and higher consumption of cigarette. We believe growth in the new cigarette users would be supported by rising youth income, higher female involvement, adoption of modern culture and increase in the urban population.

What is our assumption for ITC's cigarette revenue?

Cigarette prices and volume growth have high correlation…

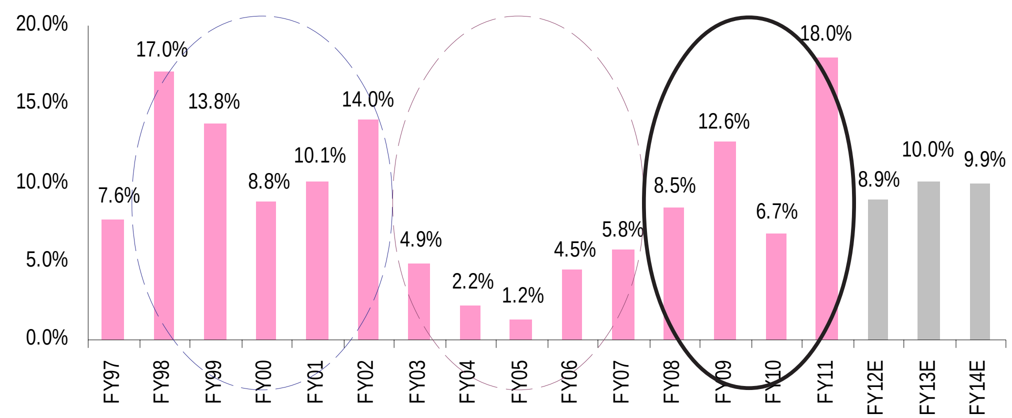
- ITC's history suggests that cigarette volume and price have high correlation. We analysed past 15 years' performance and classified period into three phases. Phase A, during FY1998-2002, was extremely high price rise period in which ITC's gross cigarette price increased by ~13% owing to ~6.3% average excise duty hike, it led to the volume decline of >2%. Phase B, during FY2003-2007, was just opposite to Phase A where the whole cigarette growth was volume driven. ITC's gross cigarette price grew by ~3.7% while volume increased by >6%. Phase C, during FY2008-2011, was mainly driven by price increase. Sharp rise in excise duty in FY11 led to the jump in cigarette prices and resulted into volume decline of ~3% during FY11. Phase C displayed +11% CAGR in gross price while volumes were flat.
- We expect volume growth of 6.1% in FY12 owing to no change in the excise duty structure and low cigarette base in FY11. However, we expect excise duty hike in FY13 and FY14 to the tune of ~7% which would force ITC to raise cigarette prices. We expect ~9.5% gross price CAGR during FY11-14E, while expect moderate volume CAGR of 3.3%.

Exhibit 41 - ITC Cigarette Volume Growth



Source: PINC Research, Company

Exhibit 42 - ITC Cigarette Price Growth



Source: PINC Research, Company

Exhibit 43 - ITC Volume and Price Scenario

	Duration	Volume CAGR	Price CAGR	Avg. Excise Rise
Phase A	1997-2002	-2.2%	12.7%	6.3%
Phase B	2002-2007	6.0%	3.7%	3.7%
Phase C	2007-2011	0.1%	11.3%	4.7%
Phase D	2011-2014	3.3%	9.5%	4.1%

Source: PINC Research, Company

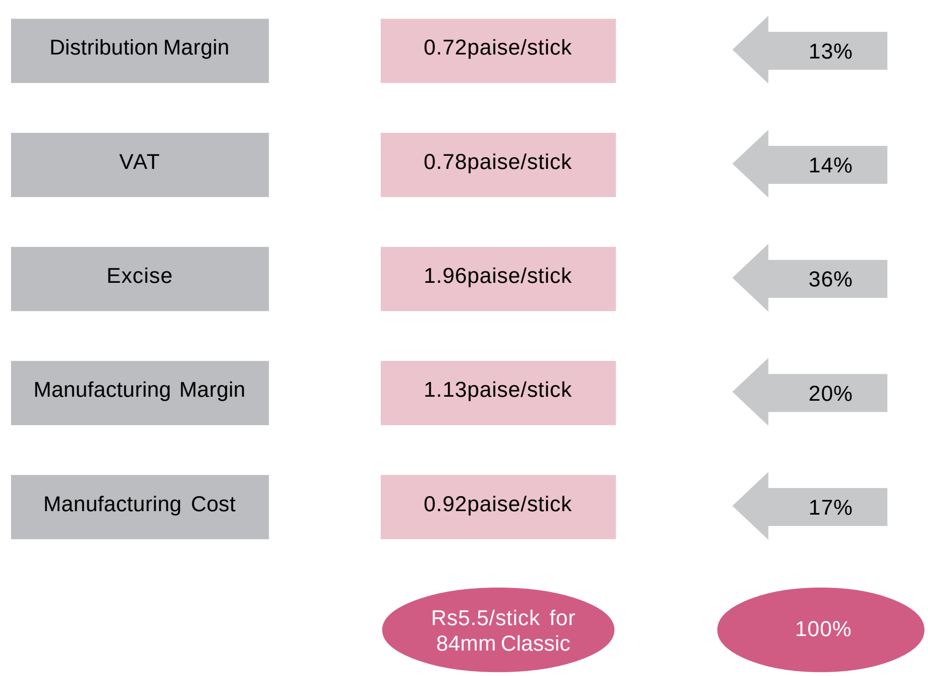
Our Breakup of Cigarette MRP

We expect revenue mix would be favourable for King size cigarette…

Our analysis suggests that large part of the cigarette volumes is accounted by the regular size (69mm). We believe regular size contributed 75% of the total cigarette volumes while large size (74mm) and King size accounted 12% and 13% respectively in FY11. In our opinion, volume mix has favorably skewed towards the King size over a period of time. We assume the cigarette mix would further shift towards the King size.

As most of the key states have recently taken substantial hike in VAT rate, we expect chance of further hike is limited. We maintain our weighted average VAT rate of 19.42% for FY12-14.

Exhibit 44 - Govt. Accounts Largest Share of Cigarette



Source: PINC Research

Exhibit 45- Our Assumption for all the Components of MRP

Particulars	FY11P			FY12E			FY13E			FY14E		
	84mm	74mm	69mm	84mm	74mm	69mm	84mm	74mm	69mm	84mm	74mm	69mm
Cig Avg MRP (Rs/stick)	4.57	3.70	2.94	5.13	4.20	3.28	5.55	4.62	3.55	6.04	5.03	3.88
Retailer/Distributor Margin (Rs/stick)	0.60	0.48	0.38	0.67	0.55	0.43	0.72	0.60	0.46	0.79	0.66	0.51
Retailer/Distributor's price (Rs/stick)	3.97	3.21	2.56	4.46	3.65	2.85	4.83	4.02	3.09	5.25	4.38	3.38
VAT Rate	14.93%	14.93%	14.93%	19.42%	19.42%	19.42%	19.42%	19.42%	19.42%	19.42%	19.42%	19.42%
VAT (Rs/stick)	0.52	0.42	0.33	0.72	0.59	0.46	0.78	0.65	0.50	0.85	0.71	0.55
Gross price for ITC (Rs/stick)	3.46	2.80	2.23	3.73	3.06	2.38	4.04	3.36	2.59	4.40	3.67	2.83
Excise (Rs/stick)	1.96	1.47	0.97	1.96	1.47	0.97	2.10	1.58	1.03	2.22	1.67	1.09
Net Price (Rs/stick)	1.50	1.32	1.26	1.77	1.59	1.42	1.95	1.79	1.56	2.17	1.99	1.74
Volume Mix	13%	12%	75%	14%	12%	74%	15%	12%	73%	17%	12%	71%
Cig Volume (mn no)	10,624	9,807	61,292	12,139	10,405	64,164	13,396	10,717	65,196	15,334	10,824	64,044
Weighted Avg. Net Sale Price			1.30			1.49			1.65			1.84

Source: PINC Research

What is the profitability outlook?

Better revenue mix, higher operational efficiency and significant cigarette price rise enabled ITC to expand PBIT per cigarette (stick) to 71paise in FY11 from 30paise in FY03. We expect profitability to remain high on account of focus on operational efficiency and retaining of pricing power due to low competitive intensity. This should further expand PBIT/stick to 103paise by FY14E.

Better revenue mix would help in maintaining higher net price growth v/s gross price growth…

Exhibit 46 - Cigarette Profitability Breakup

Cig Breakup (%)	FY07	FY08	FY09	FY10	FY11	FY12E	FY13E	FY14E
Gross Price/cig	1.58	1.71	1.93	2.06	2.43	2.64	2.91	3.19
YoY Gr%	*5.8%*	*8.5%*	*12.6%*	*6.7%*	*18.0%*	*8.9%*	*10.0%*	*9.9%*
Excise duty/cig	0.85	0.89	0.96	0.97	1.13	1.16	1.26	1.35
Net cig price/stick	0.72	0.82	0.96	1.09	1.29	1.48	1.65	1.84
YoY Gr%	*8.5%*	*13.3%*	*17.3%*	*12.8%*	*19.1%*	*14.7%*	*11.1%*	*11.9%*
RM/cig	0.09	0.10	0.15	0.22	0.23	0.26	0.29	0.33
YoY Gr%	*9.6%*	*14.0%*	*43.8%*	*46.5%*	*4.3%*	*14.9%*	*11.6%*	*12.7%*
Gross Profit/cig	0.63	0.72	0.82	0.87	1.07	1.22	1.36	1.52
YoY Gr%	*8.3%*	*13.2%*	*13.5%*	*6.7%*	*22.8%*	*14.7%*	*11.0%*	*11.7%*
Gross Profit Margin %	88%	88%	85%	80%	83%	83%	82%	82%
Other Exp/Cig	0.23	0.25	0.26	0.26	0.34	0.38	0.43	0.47
YoY Gr%	*7.5%*	*8.9%*	*3.8%*	*0.3%*	*29.0%*	*14.0%*	*11.0%*	*11.0%*
EBITDA/Cig	0.40	0.47	0.55	0.61	0.73	0.84	0.93	1.04
YoY Gr%	*8.8%*	*15.7%*	*18.7%*	*9.7%*	*20.1%*	*15.0%*	*10.9%*	*12.0%*
EBITDA Margin %	*55.8%*	*57.0%*	*57.6%*	*56.1%*	*56.5%*	*56.7%*	*56.6%*	*56.7%*
Depreciation/cig	0.01	0.02	0.02	0.02	0.03	0.03	0.03	0.03
PBIT/cig (Rs)	0.39	0.45	0.53	0.59	0.71	0.82	0.91	1.03
YoY Gr%	*9.4%*	*15.3%*	*18.6%*	*10.1%*	*20.1%*	*16.0%*	*11.5%*	*12.7%*

Source: PINC Research, Company

FMCG Business - encouraging performance

Although FMCG business contributes only ~19% of the total sales, it has a significant presence among the leading FMCG players. The business has developed multifold in the past 8 years and higher focus and better revenue mix has improved the operational performance too.

No 1 in branded packaged Atta among domestic players…

No 3 in Biscuits …

No 2 in Noodles All India (Urban)…

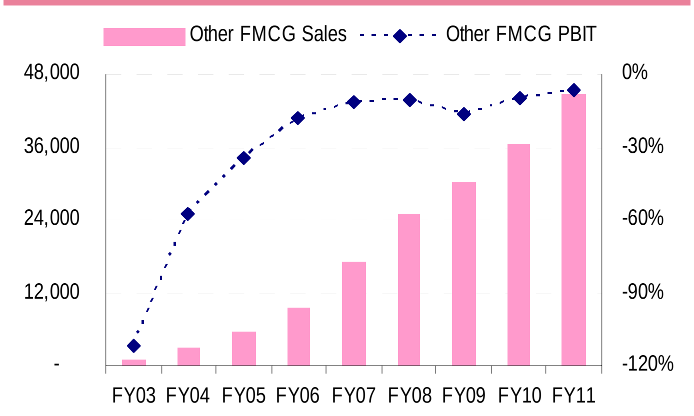
Exhibit 47 - FMCG Sales Breakup (%)

Segments	Brands	Sales Mix (FY11)
Branded Packaged Foods	Aashirvaad Atta	~21.6%
	Sunfeast Biscuits	~21.6%
	Minto, Candyman	~3.1%
	Bingo	~14.1%
	Yippee Noodles	~2.2%
Matches	Ship, Houselite	~5.5%
Others	Wills Lifestyle, John Players	~8.1%
	Education and Stationary - Classmate, PaperKraft, Colour Crew	~13.0%
	Incense Sticks - Mangaldeep	~3.7%
	Personal care products - Essenza Di Wills, Fiama Di Wills, Vivel Di Wills, Superia	~7.1%

Source: PINC Research

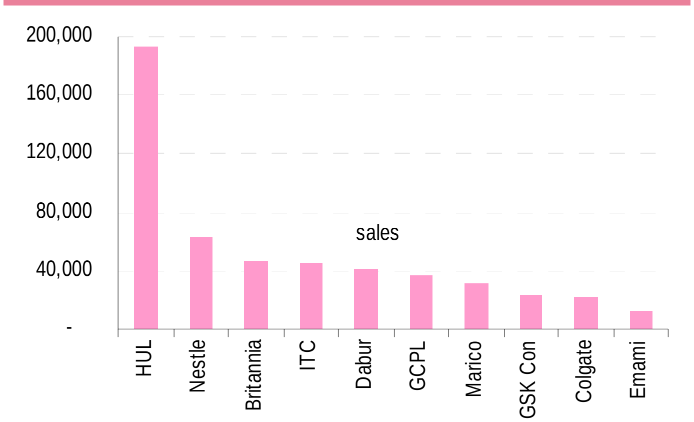
In our opinion, 'Branded Packaged Food' and 'Stationary' businesses are profitable while 'Lifestyle Retailing' and 'Personal Care' businesses are loss making thus impacting the overall profitability of the segment. The segment has consistently reduced the losses at PBIT level. We are encouraged by 240bps decline in PBIT loss (% of sales) during H1FY12 to ~5% of sales, particularly when input prices are facing high inflation. On account of softening of input prices and better growth in the profitable businesses, we expect FMCG segment to further reduce the losses and achieve breakeven in FY13.

Exhibit 48 - Strong Performance of FMCG Segment



Source: PINC Research, Company

Exhibit 49 - Significant Presence in FMCG Market



Source: PINC Research, Company

Branded Packaged Foods		
(Rs mn)	FY04	FY11
Sales	1,365	28,937

Source: PINC Research, Company

Branded Packaged Foods - matured category

ITC's branded food business is dominated by Aashirvaad and Sunfeast brand. Aggressive vertical and horizontal expansion has enabled ITC to achieve ~Rs29bn business in 7 years from mere Rs1.4bn in FY04. Aashirvaad atta and Sunfeast biscuits combined contributes ~67% of the total branded packaged food business. Aashirvaad is a matured brand and besides packaged wheat flour, ITC also uses this brand for salt, instant mix and organic spices.

Sunfeast was a game changer in the biscuit category. Through aggressive marketing, attractive pricing and regular launches, ITC poised a major challenge to incumbent big competitors like Britannia and Parle. Sunfeast covers almost whole category of biscuits from Glucose to Milky, Marie, Cream, Salted, Cookies and Dark Chocolates. Therefore, Sunfeast has been able to achieve 12% market share in a very competitive category.

Bingo has also become one of the key brands for ITC in the packaged food category. In short period of four years, ITC has positioned its Bingo brand well in snacks category and obtained >Rs6bn of sales.

Exhibit 50 - Food Business History

Brands	Category	Launch	History
Kitchens of India	Ready to Eat	2,001	Through launch of "Dal Bukhara"
		2,004	Launch of several non-veg cooking pastes
		2,010	Launch of Masala mix- Paneer Makhani, Vegetable Biryani Mix, Chicken curry mix, Butter chicken mix and Hyderabadi Biryani Mix
Aashirvaad	Staples	2,002	Introduce packaged wheat flour
		2004	Launch of Aashirvaad Salt
		2,006	Launch of instant mix- Rice, Idli, Rava Idli, Rice Dosa, Gulab Jamun and Khaman Dhokla
		2,007	Launch of organic spices- chili, turmeric and coriander powders
Mint-O	Confectionery	2002	Through acquisition of Mint-O from Candico
		2004	Extension of Mint-O to Mint-O Fresh
Candyman	Confectionery	2003	
Sunfeast	Biscuit	2003	Launch biscuits with entrance in glucose and cream segment
		2005	Enter into instant pasta category through launch of "Pasta Treat"
		2010	Entrance into noodles segment through launch of Sunfeast Yippee Noodles
Bingo	Snack Foods	2007	Potato chips and finger snacks

Source: PINC Research, Company

Exhibit 51 - Positioning of Food Business

Products	Mkt Share (%)	Peers
Aashirvaad	50% in the branded flour market	Annapurna (HUL), Pillsbury (General Mills) and Shakti Bhog (Shakti Bhog Foods)
Confectionery	10% in sugar based confectionery	Perfetti, Wrigley
Sunfeast Biscuits	12%	Parle, Britannia
Sunfeast Yippee Noodles	No 2 position with ~7-8% market share	Nestle, Top Ramen, HUL, GSK Consumers
Bingo	8%	PepsiCo

Source: PINC Research, Company

Outlook: Our understanding is that, ITC has given enough focus to settle these brands in the market. Aashirvaad and Sunfeast are the matured brands and the positioning of Bingo is also well recognized. Going forward this business requires less investment which would help in expanding profitability.

Personal care products - promising category

ITC entered into personal care category in 2005 and today it has presence into Soap, Hair Care, Bath Care, Fairness cream, Deo and Perfumes. ITC covers these categories through four brands i.e. Essenza Di Wills, Fiama Di Wills, Vivel and Superia that caters super premium, premium, mid market and entry level respectively.

Exhibit 52 - Positioning of Personal Care Products

Brands	Class	Products
Superia	Popular Segment	Soaps and Shampoo
Vivel	Mid Market	Soaps and Shampoo, Fairness Cream
Fiama Di Wills	Premium	Shampoo, Soaps, Shower Gel, Conditioner
Essenza Di Wills	Super Premium	Perfume, Deo

Source: PINC Research, Company

Outlook: Our understanding is that positioning of these four brands is not communicated well to consumers. Some of these products and price points overlap to each other and brand recognition is not very clear. Personal care is a very competitive category and MNCs dominant the market. ITC would have to invest high on product development and marketing of these products to achieve some significant market share. Therefore we expect profitability would be under pressure going forward.

Lifestyle retailing– More for Brand Equity Perspective

ITC's lifestyle retailing business is positioned well in the >Rs100bn branded apparel market. ITC run this business with 'Wills Lifestyle' and 'John Players' brands catering to premium and popular segments in the branded apparel market respectively.

ITC forayed into the youth fashion segment through the launch of 'John Players' in 2002. 'John Players' is competing with 'Peter England' in the mass market range. We believe lifestyle retailing contributes ~8% of ITC's net sales and share large portion of FMCG losses.

Exhibit 53 - Reach of 'Wills Lifestyle' Brand

Wills Lifestyle	FY09	FY10	FY11
Exclusive Stores	50	56	73
Shop-in-Shops	150	150	150
Cities	30	30	40

Source: PINC Research, Company

Exhibit 54 - Reach of 'John Players' Brand

John Players	FY09	FY10	FY11
Flagship Stores	200	225	280
Multibrand Outlets	1,300	1,200	1,100

Source: PINC Research, Company

Education and Stationery – robust growth

ITC started education and stationery business in 2002 with premium 'Paperkraft' brand and in 2003 it expanded into the popular segment with 'Classmate' brand.

'Paperkraft' portfolio comprises premium business paper, paper stationery, markers and highlighters. The brand is mainly focused on executive class.

'Classmate' range has over 300 variants of notebook, graph, drawing books, practical notebook, reminder pads and more. 'Classmate' is the dominant brand in writing material segment (~Rs40bn market) with ~12% market share (in 2010) which is followed by 'Navneet' at ~6%.

Stationery product market is >Rs100bn market in India of which notebook accounts for 40%. The market is dominated by the unorganised players which accounts ~75% of the total market. ITC operates this business through >900 distributors and its products are available at >70,000 outlets.

We believe education and stationery business comprises 13% of total net sales. It has displayed robust growth in the past and we are witnessing greater shift towards branded stationary which augurs well for ITC. We have positive bias for the business in terms of sales and profitability.

Hotels - sowing money to reap long term benefits

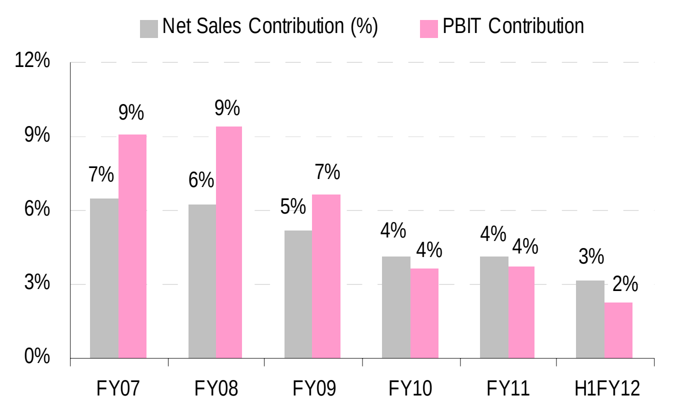
Hotel Business Performance		
(In Rs mn)	FY08	FY11
Sales	10,121	10,008
PBIT	4,108	2,666

Source: PINC Research, Company

ITC operates +100 Hotels in 90 locations in India through its four brands i.e. ITC Hotels, WelcomHotel, Fortune and WelcomHeritage which covers mix of luxury, heritage and mid segment.

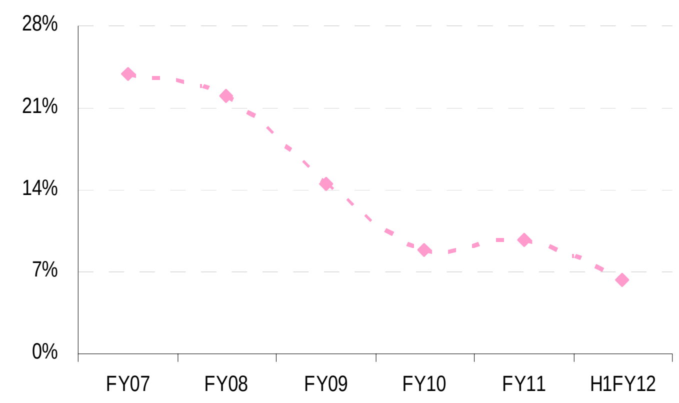
Hotel business has high dependence on foreign visitors therefore slowdown in the developed countries impacted ITC's performance during FY09 and FY10. The business improved in FY11 although sales and profitability could not achieve FY08 level. We don't expect any significant change in Hotel contribution in sales and PBIT in near term.

Exhibit 55 - Hotels Contribution in Sales and PBIT



Source: Company

Exhibit 56 - ROCE Under Pressure



Source: Company

ITC plans to invest ~Rs15-18bn over the next three years for expansion of hotel business. We believe in the near term it will further increase pressure on return ratio however long term potential of this business is immense. India is one of the favourite destinations for tourists and premium category hotels are in short supply. ITC's hotel expansion is to tap those opportunities.

5 Star category accounts for ~25% of total rooms in India …

Exhibit 57 - ITC's Hotel Mix

No of Hotels	Category	Owned/Lease	Rooms Managed	Total
15	5 Star Deluxe	2,732	705	3,437
38	Fortune- Mid Segment		3,088	3,088
53	Heritage		1,335	1,335
106	**Total**	**2,732**	**5,128**	**7,860**

Source: PINC Research, Company

Critical player in the Hotel industry…

ITC leads in profitability front…

Exhibit 58 - Hotels Peer Comparison

Particulars	FY06	FY07	FY08	FY09	FY10	FY11
Sales (Rs mn)						
Indian Hotel	19,554	27,035	30,306	27,993	26,467	29,618
EIH	9,719	11,659	13,090	12,150	10,477	12,969
ITC	**7,779**	**9,787**	**10,935**	**10,146**	**9,049**	**10,680**
Hotel Leela	3,734	4,973	5,891	5,821	4,784	5,534
Mahindra Holiday	1,568	2,413	3,772	4,421	5,213	5,464
EBITDA (Rs mn)						
Indian Hotel	6,258	9,168	9,475	6,159	5,221	5,449
EIH	4,170	4,781	5,189	4,467	3,034	3,042
ITC	**3,204**	**4,156**	**4,784**	**3,873**	**2,982**	**3,555**
Hotel Leela	1,817	2,610	3,040	2,851	1,535	1,826
Mahindra Holiday	439	793	1,440	1,521	2,007	1,717
EBITDA Margin (%)						
Indian Hotel	32.0%	33.9%	31.3%	22.0%	19.7%	18.4%
EIH	42.9%	41.0%	39.6%	36.8%	29.0%	23.5%
ITC	**41.2%**	**42.5%**	**43.8%**	**38.2%**	**33.0%**	**33.3%**
Hotel Leela	48.6%	52.5%	51.6%	49.0%	32.1%	33.0%
Mahindra Holiday	28.0%	32.9%	38.2%	34.4%	38.5%	31.4%

Source: PINC Research, Capitaline

Foreign arrivals into India 5.8mn v/s 59.7mn in USA and 52.7mn in China…

Tourism contributes 6.2% of India's GDP…

Exhibit 59 - Foreign Tourist Arrivals (FTAs) in World and India

Year	World Number (In mn)	World YoY Gr. (%)	India Number (In mn)	India YoY Gr.(%)	Percentage of India	Rank of India
1997	593.0	4.2	2.4	3.8	0.40	-
1998	611.0	3.0	2.4	(0.7)	0.39	47th
1999	633.8	3.7	2.5	5.2	0.39	46th
2000	683.3	7.8	2.7	6.7	0.39	50th
2001	683.4	0.2	2.5	(4.2)	0.37	51st
2002	703.2	2.9	2.4	(6.0)	0.34	54th
2003	691.0	(1.7)	2.7	14.3	0.39	51st
2004	762.0	10.3	3.5	26.8	0.45	44th
2005	798.0	5.4	3.9	13.3	0.49	43rd
2006	846.0	5.3	4.5	13.5	0.53	44th
2007	894.0	5.7	5.1	14.3	0.57	41st
2008	917.0	2.6	5.3	4.0	0.58	42nd
2009	882.0	(3.8)	5.2	(2.2)	0.59	42nd
2010	940.0	6.6	5.8	11.8	0.61	40th

Source: PINC Research, Ministry of Tourism

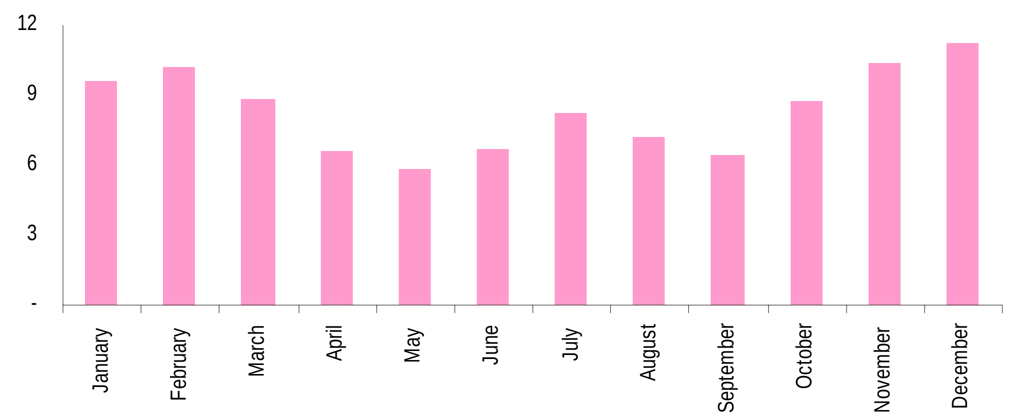
Europeans are the largest FTAs in India…

Exhibit 60 - Region-wise FTAs in India

Source: PINC Research, Ministry of Tourism

On an average >60% FTAs in second half of every financial year…

Exhibit 61 - Average Month-wise FTAs Share in India



Source: PINC Research, Ministry of Tourism

Better performance of Paperboard and Agribusiness

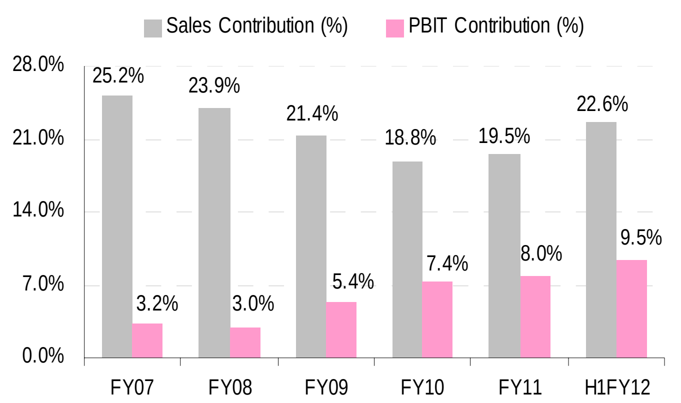
A significant portion of ITC's Paperboard and Agribusiness segments support the cigarette and FMCG businesses. Large part of the inter segment revenue is contributed by these two segments. Both segment increased their contribution in sales and profitability and to some extent set off the muted Hotel performance in the past few years.

Agribusiness is largely trading business and it accounts ~60% of ITC's total exports. Un-manufactured leaf tobacco is the largest product (~47% of total agribusiness) for the segment and fetches high margins. ITC also trades Soya in extraction, oil and seed form and these three combined contribute ~26% of agribusiness. Other key commodities for agribusiness are Coffee, Fruit pulp, Spices, Rice, Chillies, and Wheat etc.

Like any other commodity business, agribusiness is prone to high volatility. However, over a period of time ITC has been able to develop strong network with farmers which provides extensive backward linkages to agribusiness and has reduced volatility. ITC's 'e-Choupal' model created a significant two-way multi-dimensional channel between farmers and ITC. Through 'e-Choupal' ITC is now connected with more than 4mn farmers in 40,000 villages in 10 states.

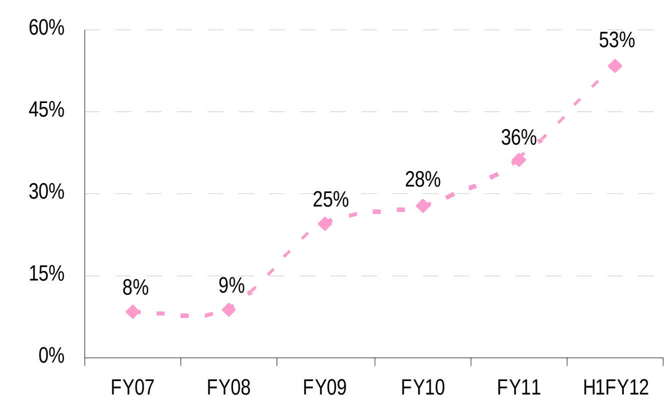
The profitability of agribusiness has improved substantially in the past 5 years. PBIT margin expanded to 12% in FY11 as compared to 4% in FY07. We expect agribusiness to maintain its growth as well as profitability momentum. Further development of 'e-Choupal' and other agri initiatives would help in expanding business.

Exhibit 62 - Agribusiness Contribution in Sales & PBIT



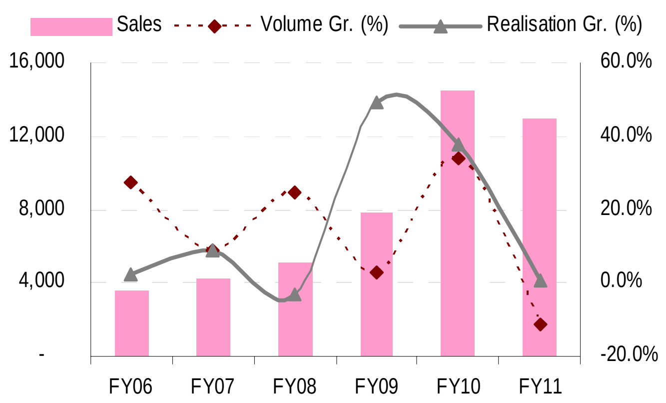
Source: PINC Research, Company

Exhibit 63 - Agribusiness ROCE (%)



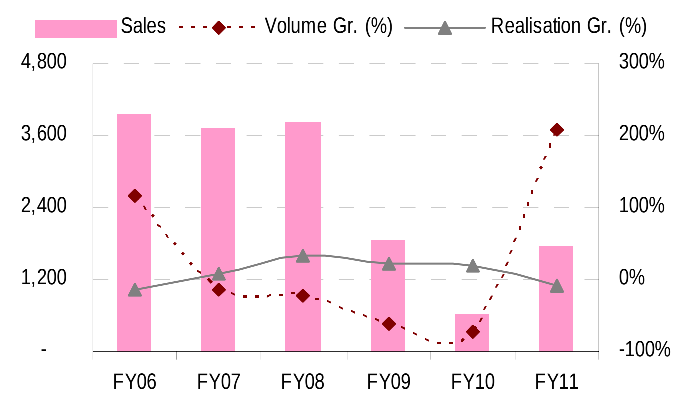
Source: PINC Research, Company

Exhibit 64 - Unmanufactured Tobacco Business



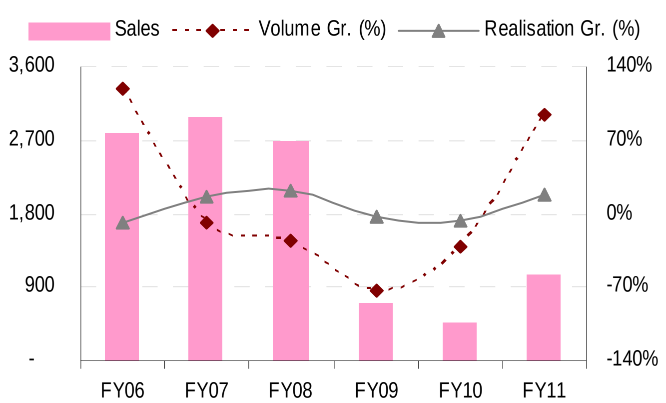
Source: PINC Research, Company

Exhibit 65 - Soya Extraction Business



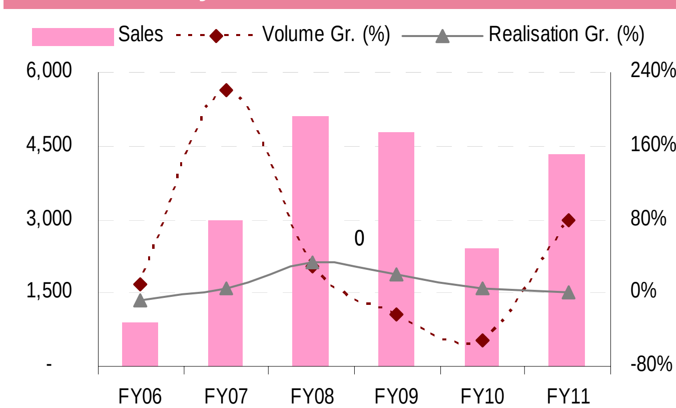
Source: PINC Research, Company

Exhibit 66 - Soya Oil Business



Source: PINC Research, Company

Exhibit 67 - Soya Seed Business



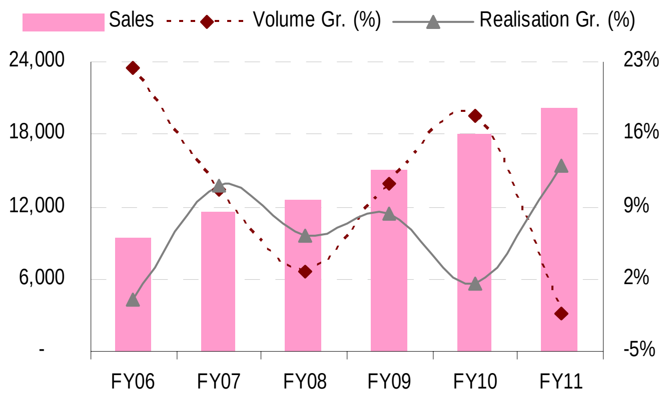
Source: PINC Research, Company

ITC's 'Paperboard, Paper and Packaging' business caters to packaging, graphic, communication, writing, printing and specialty paper requirement. Paper and paperboard business contributes >85% of the segment and it had a 17% CAGR in the past 3 years. This business was also a strategic move for backward integration of the cigarette business. A big portion (~38% of the total gross sales) of this business is being consumed internally.

ITC is now focusing more on the value-added products where ITC is already leader in the market. Value-added coated board growing at 15% and the outlook of the business is strong. The company recently indicated on robust demand from the retail segment for supplying of scratch card. To fulfill the upcoming demand for the value added products, ITC is expanding capacities.

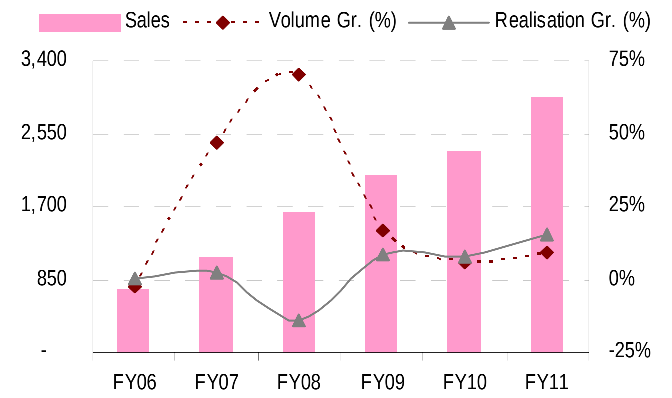
ITC maintained profitability of this business and PBIT margin has been moved between 20%-25% in the past 5 years. We expect higher contribution from the value-added products which would further improve the margin profile of this business.

Exhibit 68 - Paper and Paperboard Business



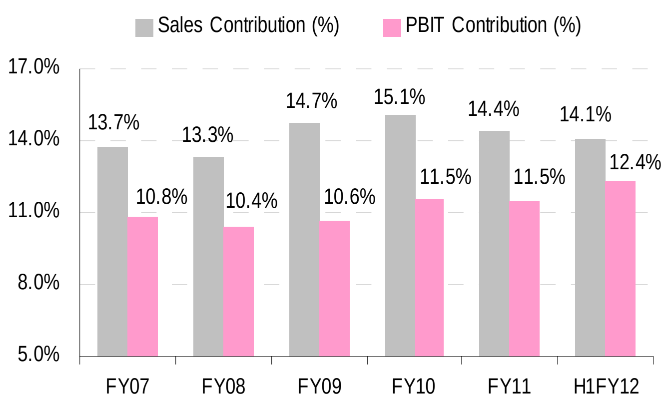
Source: PINC Research, Company

Exhibit 69 - Printing/Packaging Business



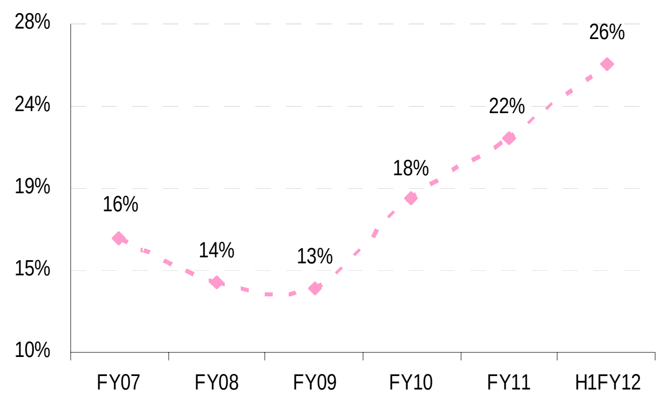
Source: PINC Research, Company

Exhibit 70 - Paperboard Contribution in Sales & PBIT



Source: PINC Research, Company

Exhibit 71 - Paperboard ROCE (%)



Source: PINC Research, Company

India's paperboard per capita consumption is mere 9kg compared to global average of 55kg ...

ITC has 26% market share in domestic paperboard market…

ITC leads in profitability front…

Exhibit 72 - Paper Business Peer Comparison

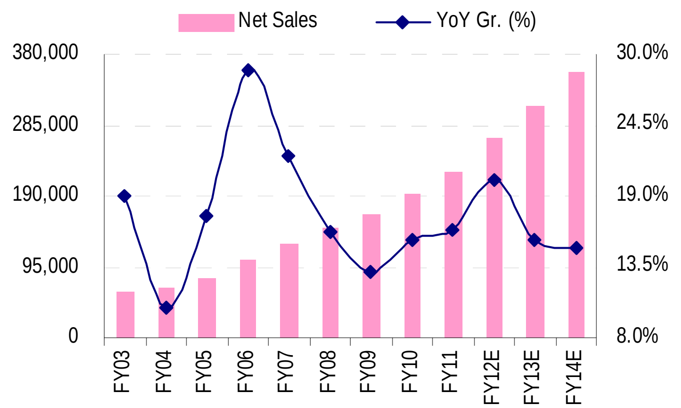
	FY06	FY07	FY08	FY09	FY10	FY11
Sales (Rs mn)						
Ballarpur	18,003	22,038	24,247	26,512	33,826	39,275
ITC	19,097	21,001	23,643	28,220	32,336	36,669
Andhra Paper/International Paper	4,458	4,868	5,784	6,279	6,493	7,818
Century Textile	4,581	5,417	8,150	8,593	8,806	10,109
EBITDA (Rs mn)						
Ballarpur	4,865	5,715	6,974	6,396	7,944	8,581
ITC	4,653	5,386	5,888	7,009	9,010	10,506
Andhra Paper/International Paper	629	554	671	1,151	1,443	1,471
Century Textile	1,273	1,456	1,826	1,518	268	913
EBITDA Margin (%)						
Ballarpur	27%	26%	29%	24%	23%	22%
ITC	24%	26%	25%	25%	28%	29%
Andhra Paper/International Paper	14%	11%	12%	18%	22%	19%
Century Textile	28%	27%	22%	18%	3%	9%

Source: PINC Research, Capitaline

Financial Analysis

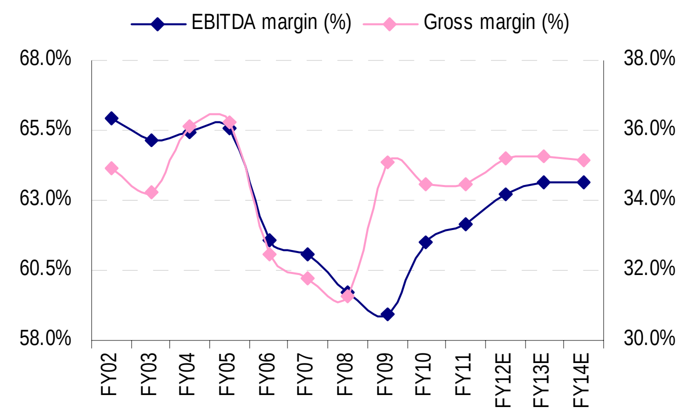
- We expect cigarette and non cigarette net sales CAGR of 16% and 16.9% respectively during FY11-14E.
- Due to strong profitability in cigarette business, ITC's profitability profile is far better and secure as compared to other FMCG players. The lowest EBITDA margin in past 10 years was at 31% which is even superior to highest margin of any FMCG player.

Exhibit 73 - Expectation of Healthy Sales Growth



Source: PINC Research, Company

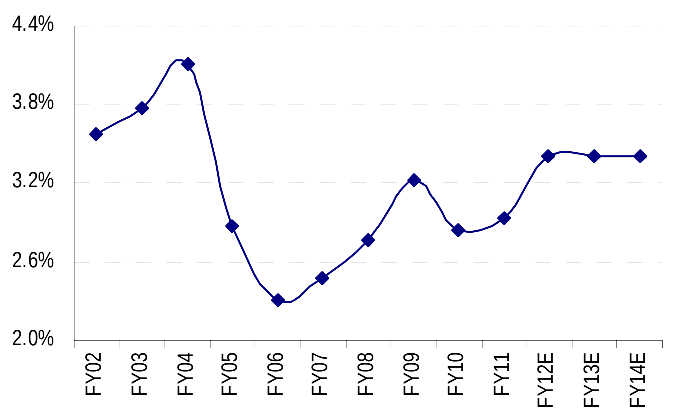
Exhibit 74 - Strong Operational Margin



Source: PINC Research, Company

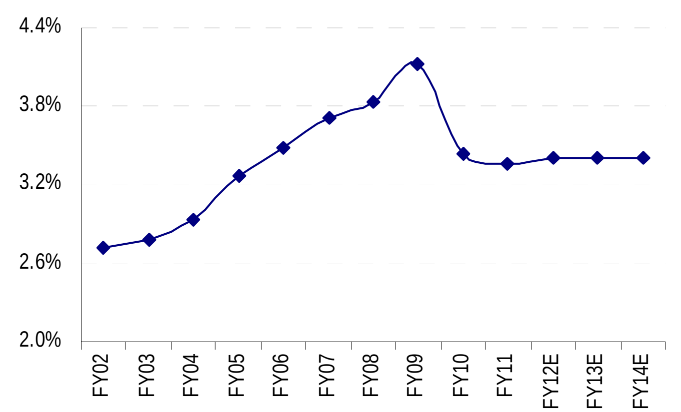
- ITC's spending on advertisement (% of sales) is much lower than other FMCG companies as cigarette, paper and agribusiness doesn't require advertisement. ITC's large part of A&P spending occurs on its FMCG business which includes branded packaged foods, personal care, education & stationary and life style retailing. We believe ITC is competitive on A&P spending on FMCG business.

Exhibit 75 - Advertisements Expense (% of net sales)



Source: PINC Research, Company

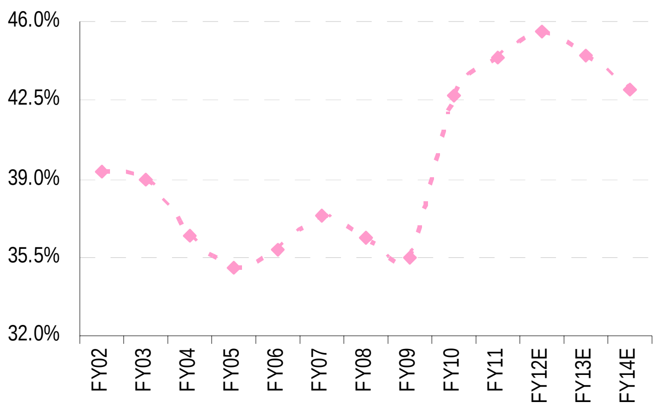
Exhibit 76 - Distribution Expense (% of net sales)



Source: PINC Research, Company

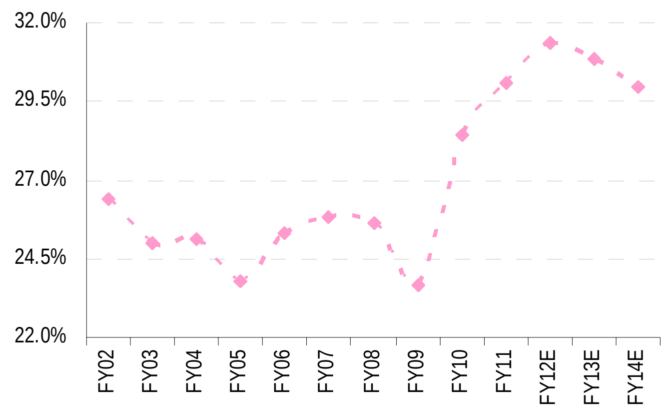
- Historically, cigarette business ROCE and ROE ranges in 140-160% v/s depressed return profile of non cigarette business which ranges between 8-14%. We expect overall return profile to be maintained going forward owing to requirement of high investment in the non cigarette businesses.

Exhibit 77 - ROCE Movement



Source: PINC Research, Company

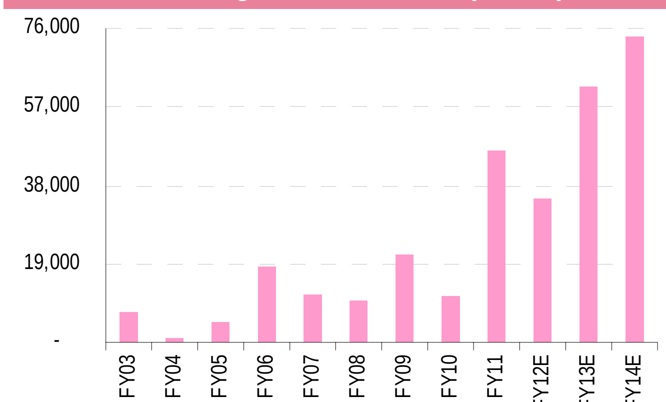
Exhibit 78 - ROE Movement



Source: PINC Research, Company

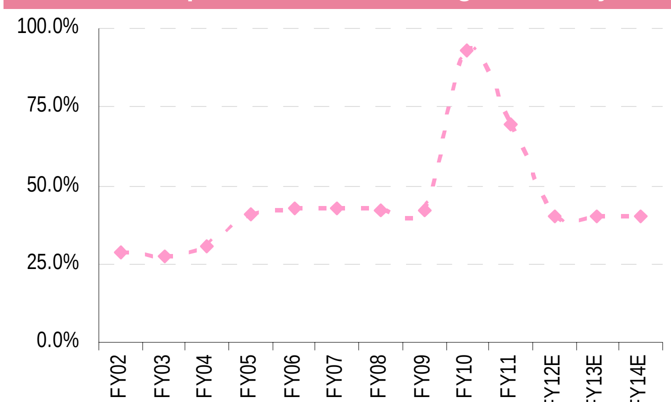
- ITC has been maintaining a dividend payout ratio of 40% except for FY10 and FY11 when it distributed special dividend. We expect ITC would maintain 40% dividend payout ratio going forward as the company plans for high capex.

Exhibit 79 - Strong FCF to Continue (Rs mn)



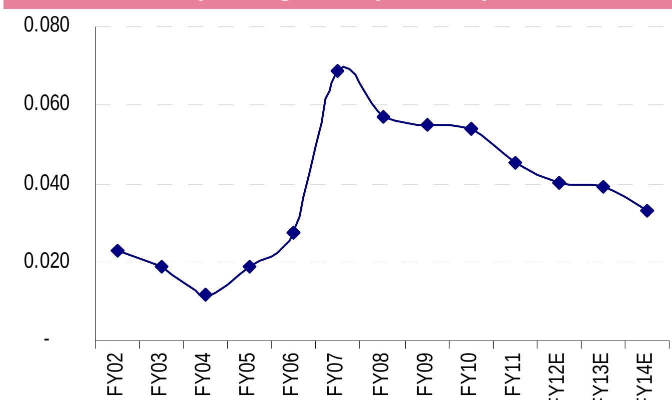
Source: PINC Research, Company

Exhibit 80 - Special Dividend Changed the Trajectory



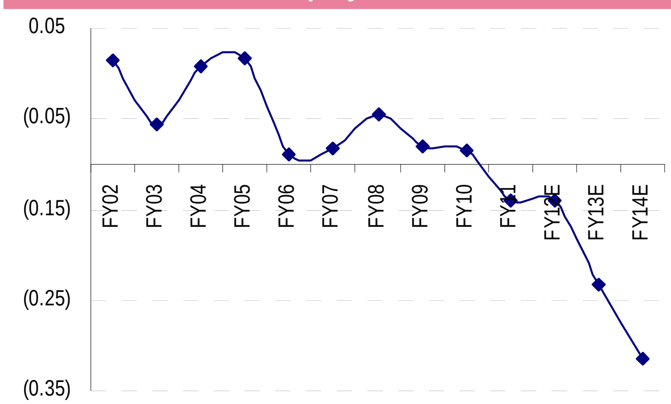
Source: PINC Research, Company

Exhibit 81 - Capex/Cigarette (Rs/stick)



Source: PINC Research, Company

Exhibit 82 - Net Debt/Equity Ratio



Source: PINC Research, Company

Company Background

ITC was incorporated in 1910 under the name of 'Imperial Tobacco Company of India Limited' which was later renamed to 'India Tobacco Company Limited' in 1970, 'I.T.C. Limited' in 1974 and finally named to 'ITC Limited' in 2001. ITC is one of the largest Indian conglomerates with presence in cigarette, FMCG, hotel, paperboard and agribusiness.

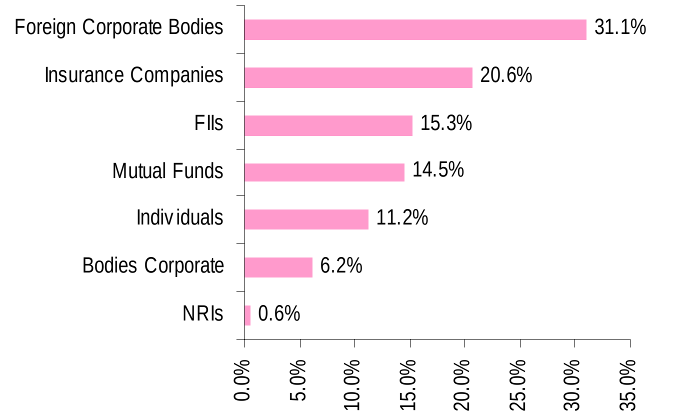
Exhibit 83 - ITC's Business History

Year	Details
1910	Incorporated and run cigarette and leaf tobacco business
1925	ITC's first diversification of cigarette business was packaging and printing business which was started in 1925. It was strategic backward integration for ITC's cigarette business.
1975	Then ITC waited 50 years to enter into Hotel business with the acquisition of a hotel in Chennai.
1979	ITC entered into paperboard business through 'ITC Bhadrachalam Paperboard Limited' which amalgamated into ITC in 2002.
1985	ITC set up Surya Tobacco Co. in Nepal as an Indo-Nepal and British joint venture. In 2002, Surya Tobacco became a subsidiary of ITC Limited and its name was changed to Surya Nepal Private Limited (Surya Nepal)
1990	ITC acquired Tribeni Tissues Limited, a Specialty paper manufacturing company and a major supplier of tissue paper to the cigarette industry. Tribeni Tissues Division was merged with the Bhadrachalam Paperboards Division to form the Paperboards & Specialty Papers Division in 2002.
1990	To leverage agri-sourcing competency, ITC set up the Agri Business Division for export of agri-commodities. The Division is today one of India's largest exporters.
2000	Forayed into Education and Stationery business.
2000	ITD made a presence into Lifestyle Retailing business
2000	ITC spun off its IT business into a wholly owned subsidiary ITC Infotech India Ltd
2001	ITC foray into food business through launch of 'Kitchens of India'
2002	Commence Confectionery business
2002	Launch of Aashirvaad Atta
2003	Foray into biscuit business through 'Sunfeast' brand
2003	Commenced business of marketing of Agarbattis, having Spriha and Mangaldeep brands
2005	Introduced Essenza Di Wills, an exclusive range of fine fragrances and bath & body care products for men and women
2007	Entered into branded snacks category through launch of 'Bingo'
2007	Launch of 'Fiama Di Wills', a premium range of Shampoos, Shower Gels and Soaps
2007	Superia' range of Soaps and Shampoos in the mass-market segment
2008	Vivel range of shampoos
2010	Entrance into noodles segment through launch of Sunfeast Yippee Noodles

Source: Company, PINC Research

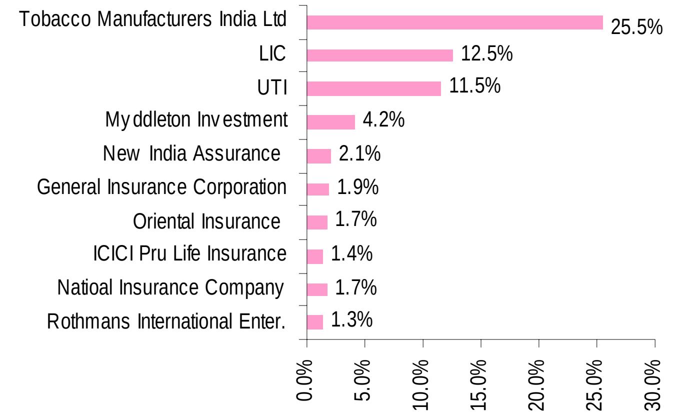
ITC has 100% free float as there is no promoter holding in the company. BAT is the largest shareholder with 31% indirect holding through its affiliates 'Tobacco Manufacturers India Ltd', 'Myddleton Investment Company Ltd' and 'Rothmans International Enterprises Ltd'. Insurance companies hold 20.6% with largest stake being held by LIC at 12.5%.

Exhibit 84 - Shareholding Pattern (%)



Source: PINC Research, BSE Sep'2011 Shareholdings

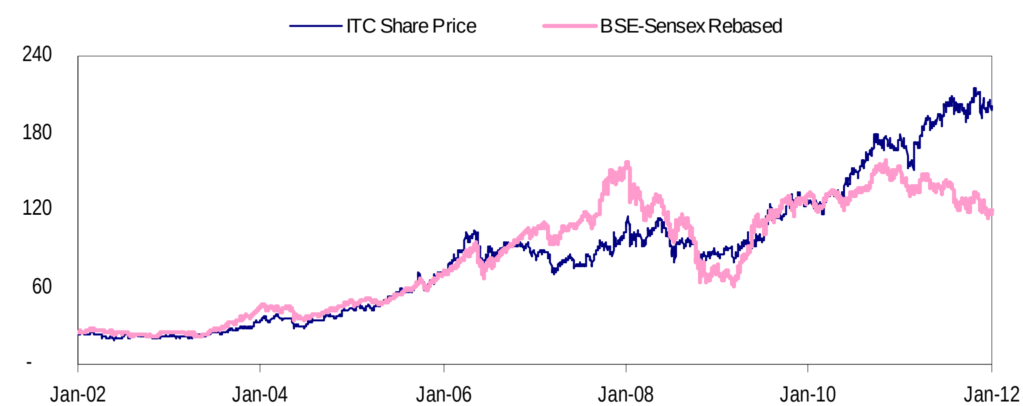
Exhibit 85 - Holding More Than 1% of the Total Shares



Source: PINC Research, BSE Sep'2011 Shareholdings

Over the last 10 year, ITC's stock has consistently outperformed benchmark BSE Sensex. During this time, BSE Sensex grew by 5x while ITC grew by >8x. Even in the last one year, ITC's has outperformed BSE Sensex by >30%.

Exhibit 86 - ITC's Share Price History v/s BSE-SENSEX Rebased



Source: PINC Research, Bloomberg

Exhibit 87 - ITC's Bonus History

YEAR	BONUS
1978	One share for every five shares held
1980	One share for every five shares held
1989	One share for every one share held
1991	Three shares for every five shares held
1994	One share for every one share held
2005	One share for every two shares held
2010	One share for every one share held

Source: PINC Research, Company

Year Ended March (Figures in Rs mn)

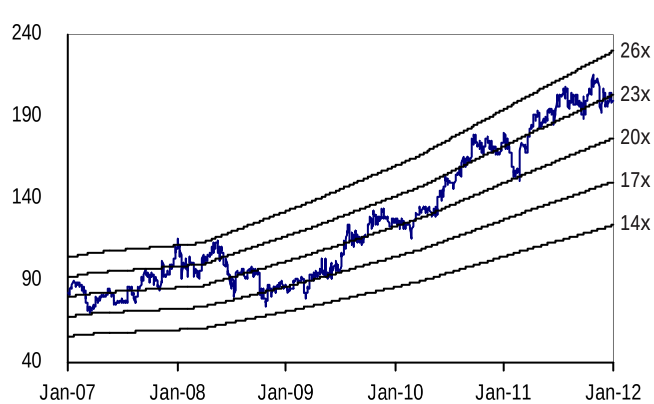
Income Statement	FY10	FY11	FY12E	FY13E	FY14E
Gross Sales	276,234	320,782	370,942	425,066	481,264
Net sales	191,359	222,737	267,694	309,394	355,647
Growth (%)	*15.6*	*16.4*	*20.2*	*15.6*	*14.9*
EBITDA	62,730	74,208	91,485	106,812	122,803
Growth (%)	*23.3*	*18.3*	*23.3*	*16.8*	*15.0*
Depreciation	6,439	6,990	7,489	8,110	8,800
Other Income	6,440	7,951	8,881	10,264	11,566
EBIT	62,731	75,169	92,877	108,966	125,569
Interest Paid	918	818	865	865	865
PBT (before E/o items)	61,813	74,351	92,011	108,101	124,703
Tax Provision	20,350	23,655	29,444	34,592	39,905
Minority Interest	488	611	705	814	814
E/o income/(loss)	(86)	624	-	-	-
Reported PAT	41,037	50,182	61,963	72,800	84,095
Adjusted PAT	41,123	49,558	61,963	72,800	84,095
Growth (%)	*23.8*	*20.5*	*25.0*	*17.5*	*15.5*
Diluted EPS (Rs)	5.3	6.4	8.0	9.4	10.9
Diluted EPS Growth (%)	*22.4*	*20.5*	*25.0*	*17.5*	*15.5*

Cash Flow Statement	FY10	FY11	FY12E	FY13E	FY14E
Pre-tax profit	62,457	74,349	92,011	108,101	124,703
Depreciation	6,439	6,991	7,489	8,110	8,800
Total Tax Paid	(20,712)	(22,784)	(29,252)	(34,386)	(39,682)
Chg in working capital	(882)	119	(17,153)	916	(303)
Other operating activities	(2,870)	(4,139)	966	971	977
Cash flow from oper (a)	44,433	54,536	54,061	83,713	94,495
Capital Expenditure	(12,463)	(14,207)	(18,700)	(18,100)	(17,100)
Chg in investments	(24,805)	2,784	(600)	(3,550)	(3,550)
Other investing activities	3,804	3,261	-	-	-
Cash flow from inv.(b)	(33,464)	(8,162)	(19,300)	(21,650)	(20,650)
Free cash flow (a+b)	10,969	46,374	34,761	62,063	73,845
Equity raised/(repaid)	7,207	9,038	-	-	-
Debt raised/(repaid)	(759)	135	-	-	-
Interest paid	(343)	(167)	(865)	(865)	(865)
Dividend (incl. Tax)	(14,486)	(38,662)	(24,785)	(29,120)	(33,638)
Other financing activities	(2,320)	(6,142)	(4,337)	(5,096)	(5,887)
Cash flow from fin. (c)	(10,701)	(35,797)	(29,988)	(35,082)	(40,390)
Net chg in cash (a+b+c)	269	10,577	4,773	26,981	33,454

Balance Sheet	FY10	FY11	FY12E	FY13E	FY14E
Equity Share Capital	3,818	7,738	7,738	7,738	7,738
Reserves & surplus	140,764	156,882	189,723	228,307	272,878
Shareholders' funds	144,582	164,621	197,461	236,045	280,616
Minorities interests	1,263	1,408	2,114	2,928	3,742
Total Debt	1,108	1,246	1,246	1,246	1,246
Capital Employed	146,953	167,274	200,820	240,218	285,603
Net fixed assets	97,974	105,117	116,328	126,317	134,617
Cash & Cash Eq.	13,485	24,269	29,043	56,024	89,479
Net Other current assets	(6,694)	(2,812)	14,342	13,425	13,729
Investments	50,003	48,677	49,277	52,827	56,377
Net Deferred tax Assets	(7,805)	(7,981)	(8,172)	(8,378)	(8,601)
Total Assets	146,966	167,273	200,820	240,218	285,603

Key Ratios	FY10	FY11	FY12E	FY13E	FY14E
OPM (%)	32.8	33.3	34.2	34.5	34.5
Net Margin (%)	21.5	22.2	23.1	23.5	23.6
Div. Yield (%)	2.4	2.2	1.6	1.9	2.2
Net debt/Equity (x)	(0.1)	(0.1)	(0.1)	(0.2)	(0.3)
Net Working Capital (days)	(12.8)	(4.6)	19.6	15.8	14.1
ROCE (%)	42.7	44.4	45.6	44.5	43.0
RoE (%)	28.4	30.1	31.4	30.8	30.0
EV/Net Sales (x)	7.8	6.7	5.6	4.7	4.0
EV/EBITDA (x)	23.9	20.1	16.2	13.6	11.6
PER (x)	38.0	31.5	25.2	21.5	18.6
PCE (x)	32.9	27.6	22.5	19.3	16.8
Price/Book (x)	10.8	9.5	7.9	6.6	5.6

1-Year forward P/E Band



Assumptions	FY11	FY12E	FY13E	FY14E
Cig Volume Gr. (%)	-2.8%	6.1%	3.0%	1.0%
Cig Gross Price Gr. (%)	18.0%	8.9%	10.0%	9.9%
Cig Gross Sales Gr. (%)	14.7%	15.5%	13.3%	11.0%
Cig Net Sales Gr. (%)	15.8%	21.7%	14.4%	13.0%
Cig Excise Gr. (%)	13.5%	8.5%	11.9%	8.4%
Cig VAT Rate (%)	14.9%	19.4%	19.4%	19.4%
Cig PBIT (Rs/stick)	0.71	0.82	0.91	1.03
Cig PBIT Gr.(%)	16.8%	23.1%	14.8%	13.8%
FMCG Gr. (%)	24.1%	20.0%	20.9%	20.4%
Agribusiness Gr. (%)	20.5%	12.9%	13.3%	14.0%
Paper Business Gr. (%)	12.4%	16.1%	16.3%	16.4%
Hotel Gr. (%)	17.3%	10.6%	14.2%	12.7%

Initiating Coverage
Sector: FMCG
BSE Sensex: 15,868

HUL

BUY
CMP Rs392
TP Rs371

09 January 2012

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Sign of improvement, Valuations stretched

Hindustan Unilever Ltd (HUL) is the largest FMCG player with the strong presence in Soaps, Detergents, Skin care, Oral care, Hair Care, Staple foods and Beverage businesses. As per our 'RIVER' analysis, we expect Personal Care segment would continue to dominate the overall profitability of HUL and would help in delivering 16.6% CAGR in net earnings during FY11-14E.

Business visibility improved, profitability scope is limited

The higher involvement of top management at the field level, setting up aggressive sales targets and expansion of distribution network are the indicators for business development. We expect it would help in delivering better revenue going forward which HUL was missing in previous several years. However, as HUL has already reduced A&P (% of sales) spending during H1FY12 to 11.5% from 14% in FY11, we believe to improve the profitability further A&P control is limited. We expect sales and net earnings to show 14.1% and 16.6% CGAR during FY11-14E as compared to 12.4% and 7% during FY08-11 respectively.

Personal care would continue to lead

Personal care accounts for 30% and 53% of sales and PBIT respectively for HUL. In our opinion, skin care is the largest contributor of personal care business and contributes ~50% of personal care EBITDA. Strong growth in skin care would adjust the profitability pressure in other categories like shampoo and oral care and would help in maintaining the profitability profile of the personal care segment.

'Soaps and Detergent' profitability upside is limited

The performance of 'Soaps and Detergent' segment in the past 3 quarters was very encouraging. The segment has not only shown better volume growth but simultaneously improved the profitability profile too. HUL in FY11 reported lowest PBIT margin of 9.5% which we believe was largely due to down trading in the detergent products. We expect segment profitability would improve from FY11 level however, achieving historical mid teen margin seems difficult due to high competition from P&G, Rohit Surfactant (Ghari), Godrej Consumers, Wipro, Reckitt Benkiser and ITC which would limit the profitability upside for the segment.

VALUATIONS AND RECOMMENDATION

We value HUL at P/E of 28x (12-month forward earnings) which is ~10% premium to the FMCG sector valuations and ~8% higher than its past three years median P/E. We arrive at a target price of Rs371 which is 6% down from the CMP. Hence, we initiate HUL with a 'REDUCE' rating.

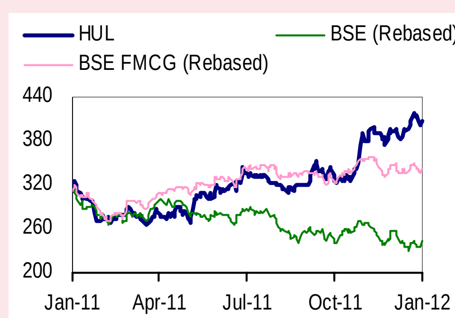
STOCK DATA

Market cap	Rs857bn
Book Value per share	Rs13
Shares O/S (F.V. Rs1)	2,160mn
Free Float	48%
Avg Trade Value (6 months)	Rs1,061mn
52 week High/Low	420/265
Bloomberg Code	HUVR IN
Reuters Code	HLL.BO

PERFORMANCE (%)

	1M	3M	12M
Absolute	3.3	25.0	27.1
Relative	9.2	24.5	63.5

RELATIVE PERFORMANCE



KEY FINANCIALS (CONSOLIDATED) (Rs mn)

	FY10	FY11	FY12E	FY13E	FY14E
Net Sales	180,256	200,185	229,960	261,492	298,550
YoY Gr. (%)	*8.3*	*11.1*	*14.9*	*13.7*	*14.2*
Op. Profits	28,374	27,045	32,676	37,980	43,996
OPM (%)	*15.7*	*13.5*	*14.2*	*14.5*	*14.7*
Adjusted Net Profit	20,974	21,336	25,225	29,229	33,987
YoY Gr. (%)	*5.3*	*1.7*	*18.2*	*15.9*	*16.3*
KEY RATIOS					
Dil EPS (Rs)	9.6	9.9	11.7	13.5	15.7
ROCE (%)	105.5	99.2	96.8	93.9	93.8
RONW (%)	78.6	78.7	75.4	73.0	73.3
P/E (x)	41.3	40.2	34.0	29.3	25.2
EV/Sales (x)	4.6	4.1	3.6	3.1	2.7
EV/EBITDA (x)	29.4	30.6	25.1	21.3	18.2

INITIATING COVERAGE

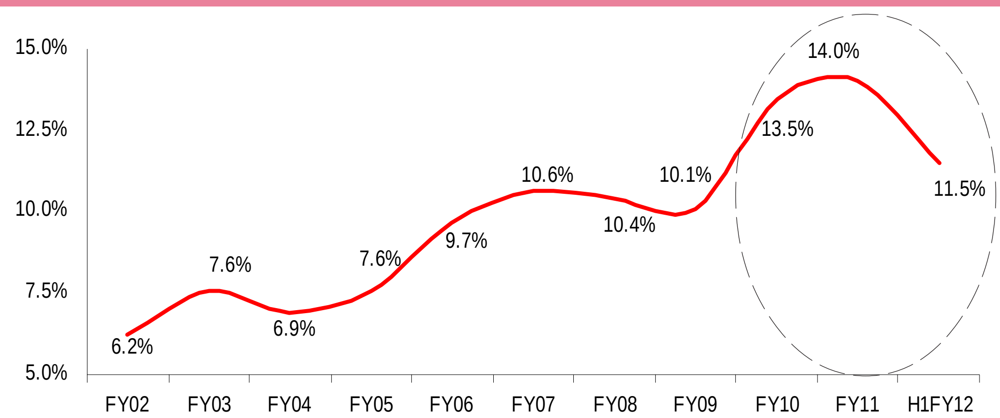
INVESTMENT ARGUMENT

Business visibility improved, profitability scope is limited

In last one year, we have noticed that Unilever Plc, parent of HUL, is focusing more in the Emerging market and India is one of the target markets. As a result, we have been witnessing aggression in the HUL's top management. The higher involvement of top management at the field level,setting up aggressive sales targets and expansion in distribution network are the indicators for business improvement going forward.

Higher management focus would increase the business growth but we believe further control on discretionary spending is limited. HUL has already reduced A&P (% of sales) spending substantially during H1FY12 to 11.5% v/s 14% in FY11; therefore to improve the profitability further scope of control on discretionary spending is limited. We expect 14.1% and 16.6% sales and net earnings CGAR during FY11-14E as compared to 12.4% and 7.1% during FY08-11 respectively.

Exhibit 1 - Further Scope of Reduction in A&P (% of sales) Spending is Limited



Source: PINC Research, Company

Power brands' presence in several categories

HUL has rationally reduced power brands' dependence on one category through frequent launches of these brands in other categories. It not only reduced the brands' dependence on one category but also expanded HUL's brands in one particular category. For example, Dove was known as a skin cleansing brand but today it has strong presence in categories like shampoo, body lotion, deodorant and conditioner. In the same manner Lux, Sunsilk, Liril, Pond's, Pears, Vaseline and Lakme expanded their presence in other categories too.

Through this, HUL improved its competitiveness in each of the categories. HUL has created alternative brands for each of the categories that engage customers with the company; if not with one brand.

Exhibit 2 - Brand Extension	
Brand	**Presence**
Dove	Shampoo, Soap, Body Lotion, Deodorant, Conditioner
Vaseline	Petroleum Jelly, Lip care, Body Lotion
Pears	Soap, Face wash, Hand wash
Pond's	Skin Care, Talc, Face wash
Liril	Soap, Talc
Lux	Soap, Shampoo
Sunsilk	Shampoo, Conditioner
Rexona	Soap, Deodorant
Lakme	Skin Care, Color Cosmetics

Source: PINC Research, Company

"RIVER" Analysis

Despite the fact that HUL had maintained leadership position in most of the categories, the concern factor is loosing volume and value market share. We think companies with higher current in their River (**R**ange, **I**nnovation, **V**alue weightage, **E**ngage and **R**each) will lead the game.

HUL's products available at several price points…

Range – We believe brand's range (coverage of price points and wide variety) should be considered as a key trait. HUL's leadership in soaps, detergent, skin care, shampoo market is owing to strong range of its products. In each of the category HUL has 2-3 brands with each brand having +10 variations; so this provides large option for customers.

Innovation- Innovation is the key for any industry and FMCG industry is not an exception. Although, the innovations what we want to mention here are the consistent improvement in look, packaging, usability and quality.

We have observed couple of innovation in soaps industry that consumers adopted well.

Innovation is the key to success…

- Typical square size of soap has changed to oval and round shapes.
- Purpose of soaps has shifted from typical germs care (like Lifebuoy, Cinthol and Dettol) to skincare (Like Dove, Pears and FairGlow) and fragrance (like Liril, Lux and Breeze).
- Liquid form of soap is again a good innovation but consumer acceptability is still lower as it is not well marketed by the manufacturers. We believe this innovation has good potential as it reduces the waste and improves the consumer ease.

Consumers buying through a concept of value weightage in the monthly budget…

Value weightage – The large part of consumers' buying was depending on 'value for money' concept. However, we have observed slight change in consumer's buying post the success of plastic money and modern trade. Now consumer buys through a mathematical matrix that calculates each item's weight in the monthly expense. Due to the low weightage in the monthly budget consumer shifts towards the better price product. The importance of brand plays a key role in choosing products. HUL through higher focus on branding created wide range of brands in home care and personal care that provides high value proposition for its consumers.

Tries to engage with the company; if not with the brand…

Engage – There was a time when consumers were used to stick with one brand for lifetime and that case was largely with soaps, oral care and hair care categories. Our observation states that consumers brand loyalty has been reducing over period of time and consistent change in brands have been witnessed. Now it is difficult for a consumer to stick with one brand for whole life.

However, in our opinion, variety in the product portfolio can engage consumer to buy through the same company if not the brand. The same consumer can buy low price Lifebuoy at certain age and with the rise in income and change in the life style can move towards expensive soaps like Dove and Liril.

So in our opinion, companies should aggressively look at the change in consumers' profile and should try to give the required product to fulfill the new demand. So the consumer can be engaged with the company; if not with the brand through improvement in features, packing, quality and better schemes.

Strong regional hold of Wipro and GCPL resulted in ~600bps and ~200bps market share expansion in the past 5 years…

Reach- It is a proven fact that long term survival of any brand depends on its reach to the customers. Good companies consistently develop their distribution channel and always wait for opportunities to come to beat the competitor. HUL has lost market share in soap category and we believe it is largely on account of better reach of its competitors. Wipro is strong in the Southern India while Godrej consumers (GCPL) in the North India. Strong regional hold of Wipro and GCPL has resulted in ~600bps and ~200bps expansion in value market share in the past 5 years.

Exhibit 3 - RIVER Analysis on HUL's Categories

RIVER Analysis	R	I	V	E	R	Total
Soaps	10	8	10	8	8	44
Detergent	9	8	8	8	8	41
Skin Care	10	9	9	9	9	46
Oral Care	8	7	8	7	7	37
Hair Care	9	8	8	8	8	41
Deodorant	7	7	7	7	7	35
Staple Food	6	6	6	5	5	28
Beverages	8	8	8	8	7	39

Source: PINC Research
Note: Points are based on competitive edge and ranges between 0-10 where 10 is for the most competitive

Personal care continue to dominate profitability

We believe personal care category would continue to lead HUL on profitability front. In our opinion, skin care is the largest contributor of personal care business and contributes ~50% of personal care EBITDA. Skin care is the most promising categories in the personal care space which has immense growth potential through the favourable demographic change in consumers.

Although several domestic and MNCs are expanding personal care capacities in India, we believe it would rather help the category growth. Skin care market is still under developed market and competition would increase consumers' consciousness towards the beauty products.

HUL's large product portfolio in each of the categories would make the company more competitive. Strong growth in skin care would adjust the profitability pressure in other categories like shampoo and oral care and would help in maintaining the profitability profile of the personal care segment.

Exhibit 4 - Sales and EBITDA Mix Estimates of Personal Care Category

Categories	Sales Mix (%)	EBITDA Mix (%)
Skin Care	38%	50%
Shampoo	26%	18%
Oral Care	17%	12%
Color Cosmetics	8%	10%
Deodorant	4%	7%
Others	6%	7%

Source: PINC Research

Exhibit 5 - HUL's Business Mix

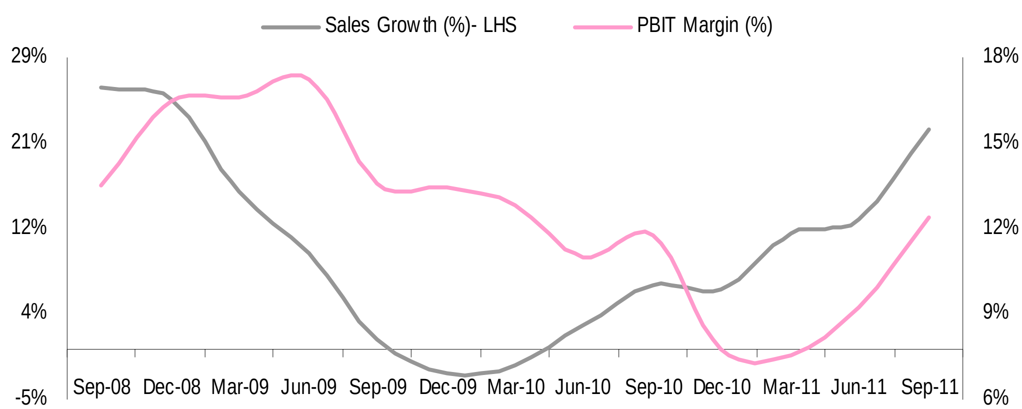
Segments	Sales Mix			Sales CAGR		PBIT Margin			PBIT Mix		
	FY08	FY11	FY14E	FY08-11	FY11-14E	FY08	FY11	FY14E	FY08	FY11	FY14E
Soaps and Detergents	45.5%	43.9%	42.4%	10.3%	12.3%	15.3%	9.5%	11.0%	43.7%	30.3%	31.9%
Personal Products	26.2%	29.4%	31.0%	15.4%	15.7%	27.8%	25.0%	25.0%	45.8%	53.3%	53.0%
Beverages	10.9%	11.7%	11.2%	13.8%	11.8%	14.9%	15.3%	15.0%	10.3%	13.0%	11.4%
Foods	3.8%	4.5%	5.1%	17.1%	18.4%	2.8%	1.4%	1.5%	0.7%	0.5%	0.5%
Ice Creams	1.1%	1.4%	1.5%	17.7%	15.8%	7.7%	7.1%	7.5%	0.6%	0.7%	0.7%
Exports	10.2%	5.9%	5.0%	-6.1%	7.9%	3.3%	7.8%	7.0%	2.1%	3.3%	2.4%
Others	2.2%	3.3%	3.8%	25.8%	19.8%	-22.2%	-4.5%	0.0%	-3.1%	-1.1%	0.0%

Source: PINC Research, Company

'Soaps and Detergent' profitability upside is limited

The performance of 'Soaps and Detergent' segment in the past 3 quarters was very encouraging. The segment has not only shown better volume growth but simultaneously improved the profitability profile too. HUL in FY11 reported lowest PBIT margin of 9.5% which we believe was largely due to the down trading in the detergent products. We expect segment profitability would improve from FY11 level however, achieving historical mid teen margin seems difficult due to higher competition from P&G, Rohit Surfactant (Ghari), Godrej Consumers, Wipro, Reckitt Benkiser and ITC which would limit the profitability upside for the segment.

Exhibit 6 - Soaps and Detergent Sales Growth and PBIT margin

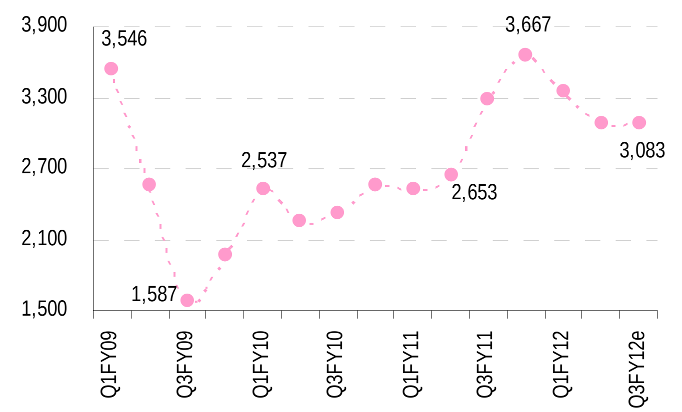


Source: PINC Research, Company

Softening of key commodities

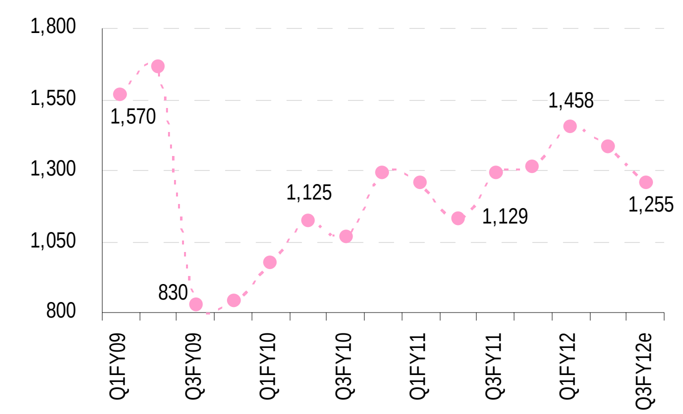
We observed prices of key commodities are softening and supporting our profitability assumption. We expect HUL's raw material cost would grow at a slower pace of ~13% during FY13E and FY14E as compared to >20% growth in FY12E. Packaging cost is also a critical cost component as it accounts ~10% of total expenses. Most of the packaging cost is based on crude related derivatives therefore Crude and HDPE prices have significant dependence. We expect packaging cost to grow by ~10% during FY13E and FY14E as compared to >20% growth in FY12E.

Exhibit 7 - Palm Oil Prices (MYR/mt)



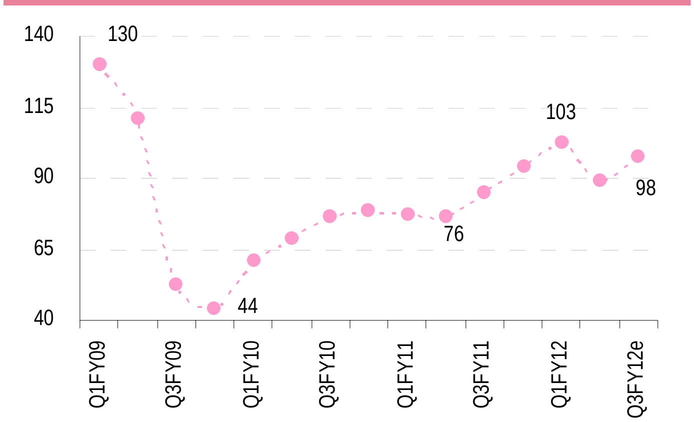
Source: PINC Research, Bloomberg

Exhibit 8 - HDPE Prices (USD/mt)



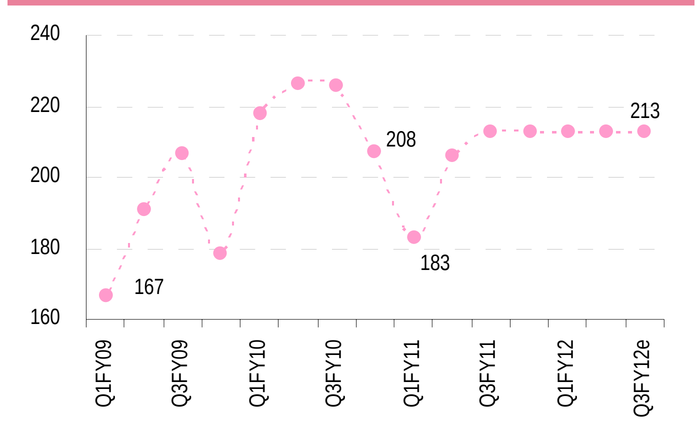
Source: PINC Research, Bloomberg

Exhibit 9 - Crude Oil Prices (USD/Barrel)



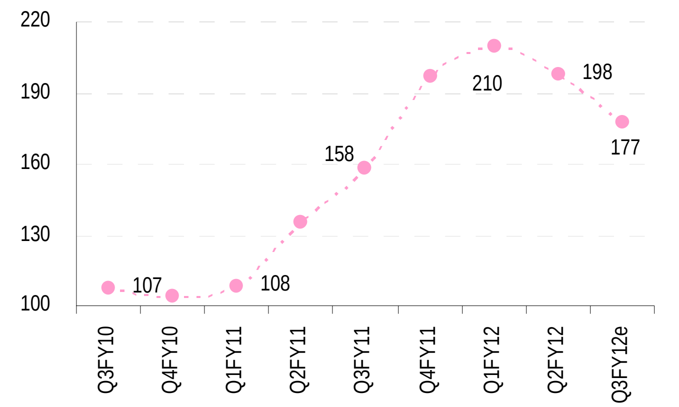
Source: PINC Research, Bloomberg

Exhibit 10 - Tea Prices (Rs/Quintal)



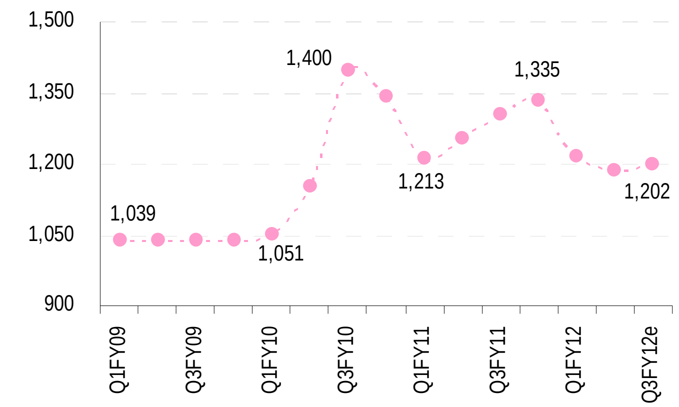
Source: PINC Research, Bloomberg

Exhibit 11 - Coffee Index (USD)



Source: PINC Research, Bloomberg

Exhibit 12 - Wheat Prices Index (Rs/Quintal)



Source: PINC Research, Bloomberg

Re-rating is over

HUL's past 40% stock run up in 300 days was largely on account of re-rating of the stock. We analysed Bloomberg's consensus earnings and found that earning up-gradation was miniscule as compared to the stock run up. In the past 300 days, stock moved up by 40% while consensus earnings increased by only ~4% and ~5% for FY12E and FY13E respectively.

Exhibit 13 - Re-rating of the Stock

Days	HUL Stock Run Up	Consensus Earning Upgrade	
		FY12E	FY13E
300 Days	39.9%	3.9%	5.3%
200 Days	27.9%	4.0%	6.7%
150 Days	17.1%	4.7%	6.7%
120 Days	22.5%	4.4%	5.7%
100 Days	20.6%	4.2%	5.6%
90 Days	9.5%	4.5%	5.8%
75 Days	12.3%	4.8%	6.3%
60 Days	16.5%	5.2%	6.7%
50 Days	14.6%	5.2%	6.3%
40 Days	1.0%	2.5%	3.7%
30 Days	-2.4%	0.7%	1.4%
20 Days	0.6%	0.1%	0.2%
10 Days	-2.2%	0.1%	0.2%
5 Days	-1.8%	0.0%	0.0%
1 Day Ago	0.7%	0.0%	0.0%

Source: PINC Research, Bloomberg

VALUATIONS AND RECOMMENDATION

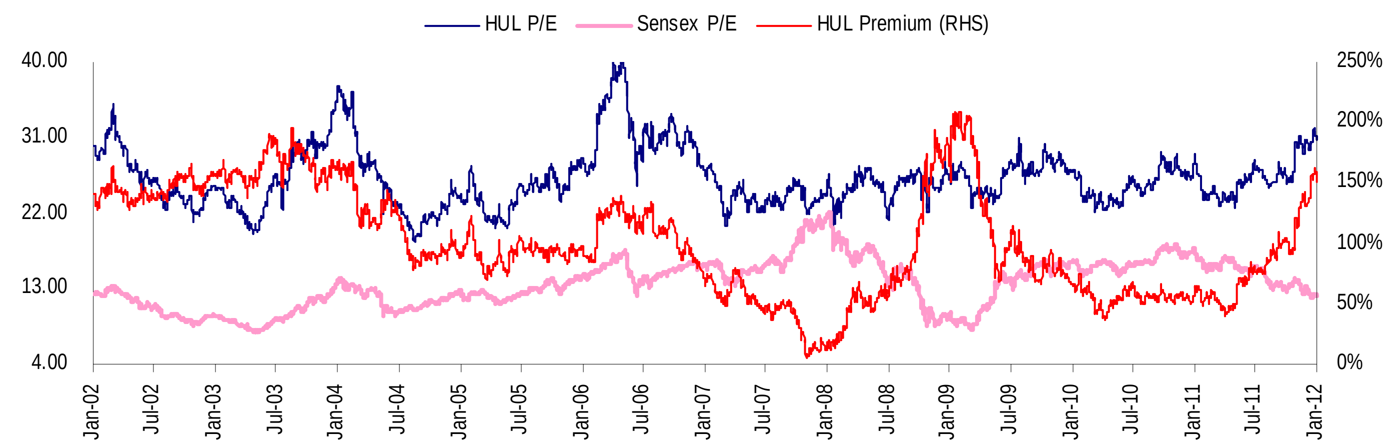
We believe higher management focus; strong growth potential of personal care segment and softening of raw material prices would provide necessary growth momentum in sales and profitability during FY11-14E. We expect HUL to deliver 14.4% and 16.9% CAGR in net sales and adjusted PAT respectively during FY11-14E.

HUL underperformed the BSE Sensex in the past several years and that trajectory changed in the current fiscal. The stock outperformed the BSE Sensex by 47% in the current fiscal (till date) and changed the stock's return profile.

HUL traded at past 3 year and 5 year median P/E (at 12-month forward earnings) of 26x and 25x respectively. Recent 40% stock run made the valuations expensive, stock currently trades at 30x P/E of 12-month forward earnings.

We believe management's higher focus vis-à-vis better operational performance in the past 3 quarters has improved the visibility in the business. Therefore, we also value HUL at high multiple of 28x (12-month forward earnings) which is ~10% premium to the FMCG sector valuations and ~8% higher than its past three years median P/E. We arrive at a target price of Rs371 which is 6% down from CMP. Hence, we initiate HUL with a 'REDUCE' rating.

Exhibit 14 - HUL Stock Performance



Source: PINC Research, Bloomberg

Soaps and Detergents

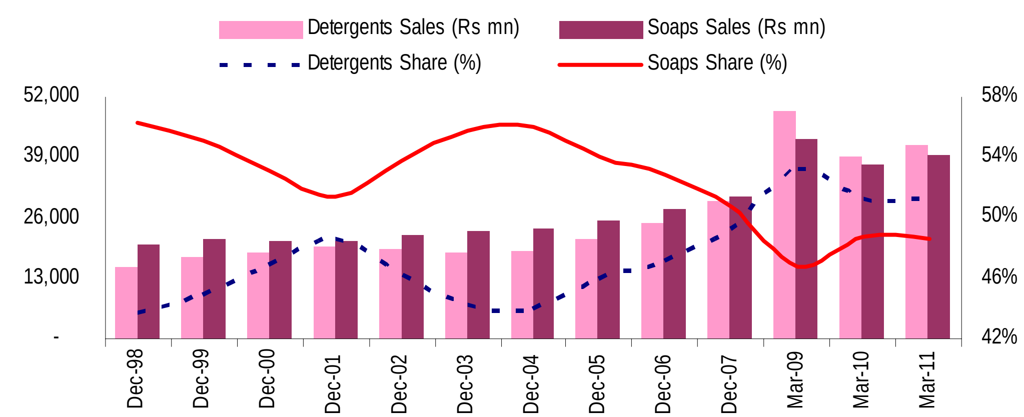
Soaps and Detergent is the largest contributor of HUL sales and accounts for ~45% of total sales. HUL holds extensive soaps and detergent portfolio with a mix of premium, economy and popular segments.

Exhibit 15 - Soaps and Detergent Product Portfolio

Soaps Portfolio	Class	Detergent Powder Portfolio	Class	Detergent Bar Portfolio	Class
Dove	Premium	Surf Excel Blue	Premium	Surf Excel	Premium
Liril	Premium	Surf Excel Quick Wash	Premium	Rin	Economy
Pears	Premium	Rin	Economy	Wheel	Popular Segment
Lux	Economy	Active Wheel	Popular Segment		
Hamam	Economy	Active Wheel Gold	Popular Segment		
Rexona	Economy				
Lifebuoy	Popular Segment				
Breeze	Popular Segment				

Source: PINC Research, Company

Exhibit 16 - Soaps and Detergents Performance



Source: PINC Research, Company

Detergent mix improved consistently and now surpassed the share of soaps in 'Soaps and Detergent' segment…

Despite having lion's market share in the soaps and detergents business, profitability has been reducing consistently. Rise in competition vis-à-vis weakening price power on key products resulted into substantial change in sales and PBIT mix. Segment contribution for sales and PBIT were at 45% and 30% in FY11 as compared to 39% and 52% in FY02.

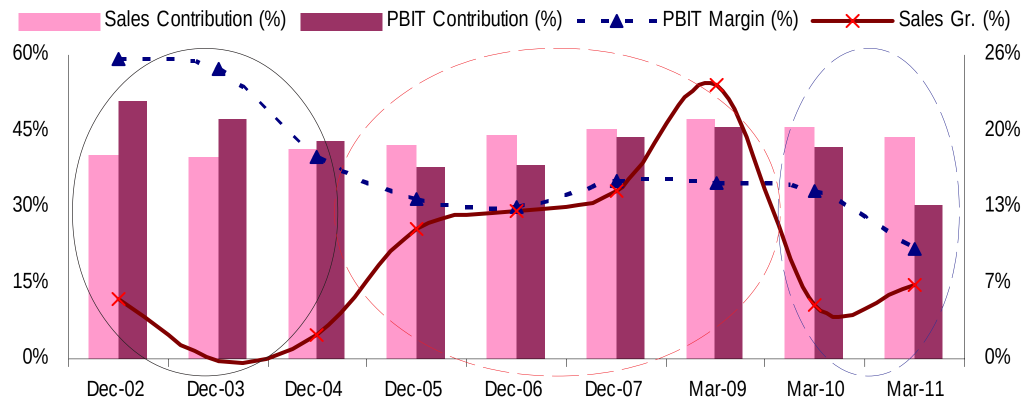
We classified HUL's last 10 years performance into three phases i.e. Phase A; Phase B and Phase C.

Phase A, during 2002-04, was more of slow sales growth and high profitability scenario. During this time competition was relatively low therefore HUL's profitability was at its peak.

Phase B, during 2005-09, was a scenario of high sales growth with a moderate profitability as compared to the Phase A.

Phase C, during 2010-11, was difficult time for the segment. HUL clocked slowest sales growth along with the lowest PBIT margin. High competitive intensity along with inflationary pressure on input prices impacted the performance.

Exhibit 17 - Substantial Decline in Profitability of Soaps & Detergents Segment

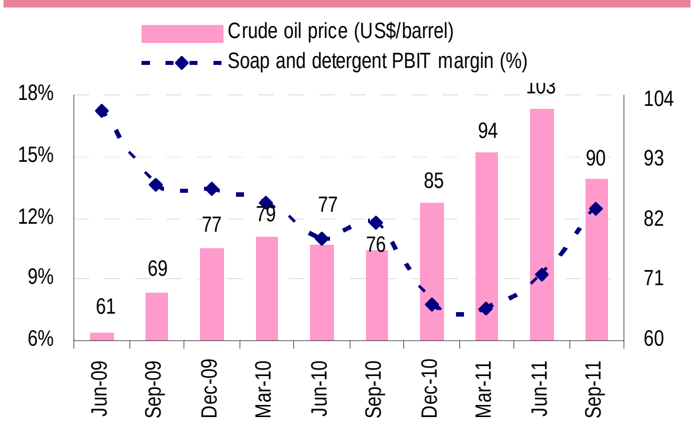


Source: PINC Research, Company

What is profitability outlook for 'Soaps and Detergent' segment

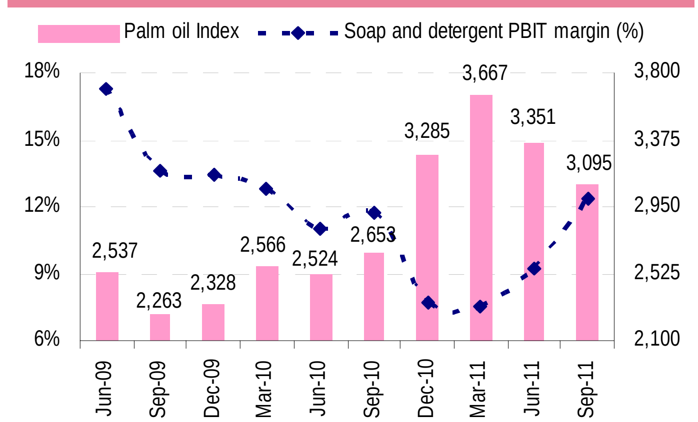
The performance of 'Soaps and Detergent' segment in the past 3 quarters was very encouraging. The segment has not only shown better volume growth but simultaneously improved the profitability profile too. HUL, in FY11, reported lowest PBIT margin of 9.5% which we believe was largely due to the down trading in the detergent products. We expect segment profitability would improve from FY11 level however achieving historical mid teen margin seems difficult due to higher competitive intensity from P&G, Rohit Surfactant (Ghari), Godrej Consumers, Wipro, Reckitt Benkiser and ITC that would limit the profitability upside for the segment.

Exhibit 18 - Impact of Crude Oil Price



Source: PINC Research, Bloomberg

Exhibit 19 - Impact of Palm Oil Price

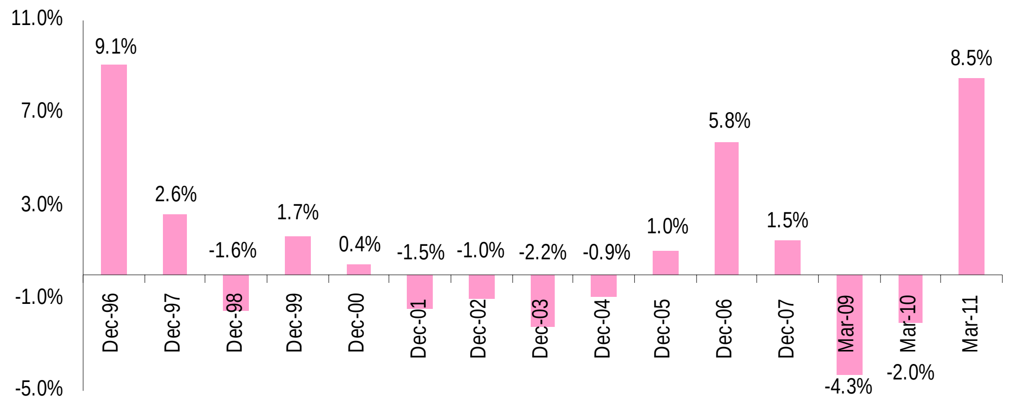


Source: PINC Research, Bloomberg

Soaps - a value driven business

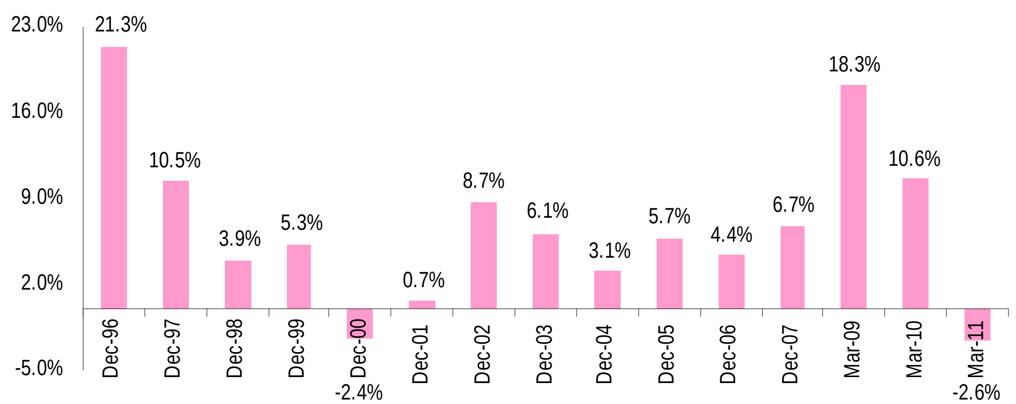
We analysed HUL's long history and found that the volume growth was never a driver for soaps business. Consistent price hike coupled with better revenue mix resulted in better realisation growth. Realisation growth shared >90% of the average soap sales growth in the past 10 years.

Exhibit 20 - Soaps Volume Growth (%)



Source: PINC Research, Company

Exhibit 21 - Soaps Realisation Growth (%)

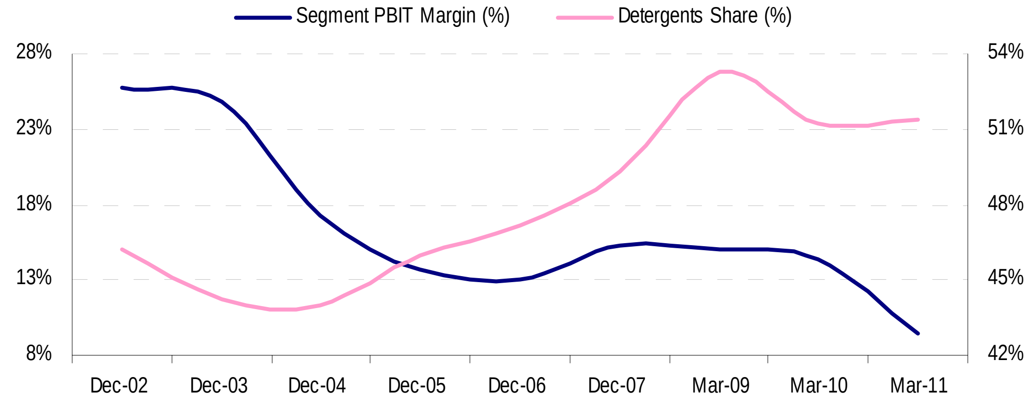


Source: PINC Research, Company

Soaps provides better operational margin than detergents

Our understanding is that soaps provides better operational margin than detergents. We observed that the contribution from the soaps has started falling since FY04 and at the same time PBIT margin of 'soaps and detergents' segment has also reduced. In the past three years, detergents share surpassed the soaps' contribution and resulted into substantial decline in 'soaps and detergent' PBIT margin.

Exhibit 22 - Profitability Decline on Change in Revenue mix

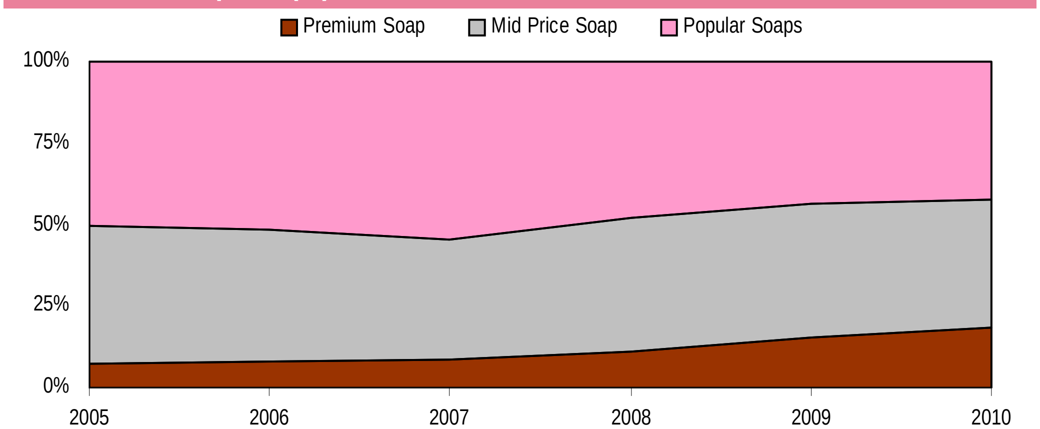


Source: PINC Research, Company

Improving sales mix for premium soaps

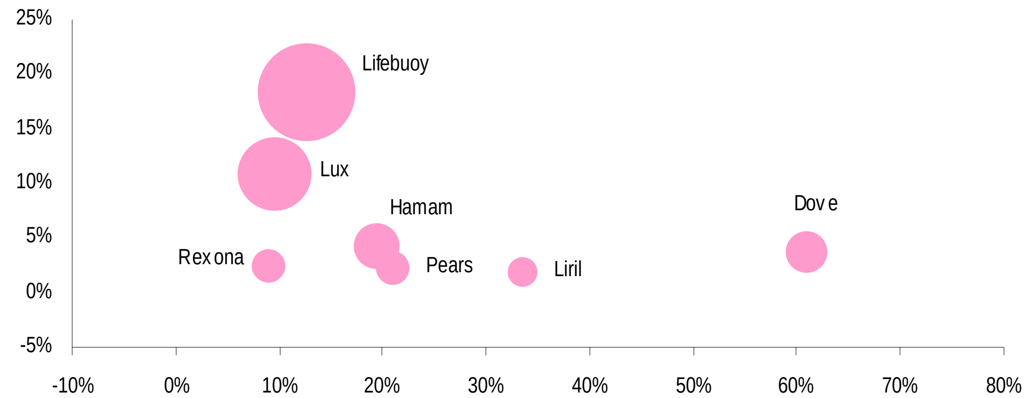
We believe HUL's premium category (Dove, Liril and Pears) soaps consists <20% of the total soaps sales but the segment is growing faster than the Economy (Lux, Hamam and Rexona) and popular categories (Lifebuoy and Breeze). HUL's higher marketing spend, consistent new launches vis-à-vis improvement in consumer demand for premium soaps were the key reasons for robust sales growth of premium soaps.

Exhibit 23 - Soap Mix (%)



Source: PINC Research, Company

Exhibit 24 - Key soap brands' sales (Rs mn), sales growth (%) & market share (%)



Source: PINC Research, Company, Industry

Note: X Axis-Estimated sales CAGR (%) during FY08-11, Y Axis-Estimated market share in FY11 (%), Size of bubble- Estimated sales (Rs mn) in FY11

HUL's positioning in the soaps market

HUL's dominance in the soaps market is due to its long existence and large soap portfolio with a presence in all price groups. HUL is a market leader with ~45% market share but its market share has substantially reduced in the past 5 years. Godrej consumers, Wipro and Reckitt Benckiser are giving tough competition. These three players combined holds ~30% market share.

Consumers' shift towards the expensive soaps is driving the Soap industry…

Soaps industry has been facing volume pressure and in the last 5 years the volumes grew merely by ~2%. We believe higher penetration level (+90%); better alternates for face wash and limited growth in consumption (like through twice bath) were the key reasons for slower volume growth.

The soap market grew by ~10% during past 5 years in which value growth was ~8%. We believe value growth has happened on account of consistent price hike and consumers' shift towards the expensive soaps. While we believe the later part is more prominent in the overall value growth this will be the key for upcoming growth in the soap market.

Exhibit 25 - Soaps Peer Comparison

Key players	Brands	Sales (Rs mn) FY11/CY10	Sales CAGR (last 5 years)	Volume CAGR (last 5 years)	Value Mkt. Share	Mkt. Share Ch. (last 5 years)
HUL	Lux, Lifebuoy, Liril, Hamam, Breeze, Pears, Dove, Rexona	39	9%	2%	45%	-940bps
Wipro	Santoor, Shikakai and Chandrika	8	21%	13%	10%	281bps
Reckitt Benckiser	Dettol	8	26%	22%	10%	405bps
Godrej Consumers	Cinthol, Godrej No 1, FairGlow	8	15%	8%	9%	53bps
Nirma	Nirma, Nima	4	-1%	-8%	5%	-489bps
Henkel India	Margo	1	1%	-1%	1%	-65bps
Others	Johnson's baby soap, Himalaya, Neem, Park Avenue, Mysore Sandalwood, Dyna, Venus, Jeeva, etc.	17	23%		30%	
Total		87	13%			

Source: PINC Research, Company, Industry

Exhibit 26 - Soap Peer Price Comparison

Products	Unit	MRP/unit	Category	Company
Dove	gm	0.51	Premium	HUL
Yardely	gm	0.45	Premium	Wipro
Denim	gm	0.44	Premium	United Distribution
Pears	gm	0.38	Premium	HUL
Fiama	gm	0.33	Premium	ITC
Liril	gm	0.32	Premium	HUL
Savlon	gm	0.32	Premium	J&J
Dettol	gm	0.26	Economy	RB
Medimix	gm	0.24	Economy	Cholayil Pvt Ltd
Chandrika	gm	0.23	Economy	Wipro
Cinthol	gm	0.23	Economy	Godrej
Camay	gm	0.22	Economy	P&G
Hamam	gm	0.21	Economy	HUL
Lux	gm	0.21	Economy	HUL
Rexona	gm	0.21	Economy	HUL
Santoor	gm	0.19	Economy	Wipro
Godrej No. 1	gm	0.18	Economy	Godrej
Lifebuoy	gm	0.14	Popular	HUL
Jo	gm	0.14	Popular	VVF Ltd
Breeze	gm	0.11	Popular	HUL

Source: PINC Research, Retail Market Dec'2011

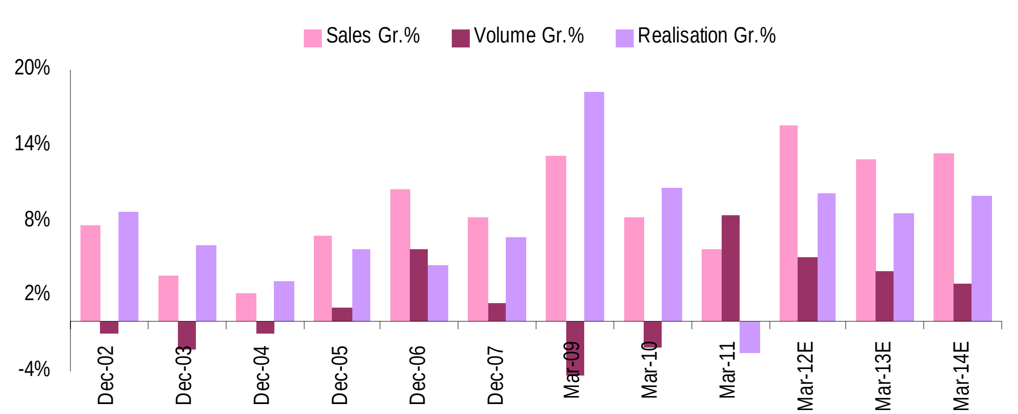
Limited competition through branded soaps…

What do we expect?

We expect premium soap segment (Dove, Liril and Pears) will continue to deliver higher growth compared to the overall soap segment growth. Dove has emerged as a separate category for skin conscious consumers. We expect Dove will continue to deliver higher double digit growth. Liril is reenergised with recent new variants and should continue to grow fast. Pears has changed its 'winters only' image to 'pure for skin' image and getting demand for whole year.

We anticipate favourable revenue mix (higher growth in the premium soap segment) would support in maintaining healthy growth in soap sales. However, aggressive competition from Wipro, Godrej Consumers, Reckitt Benckiser and ITC would restrict the growth potential. We expect HUL to clock ~13.7% CAGR in Soap sales during FY11-14E.

Exhibit 27 - Soaps Growth Breakup

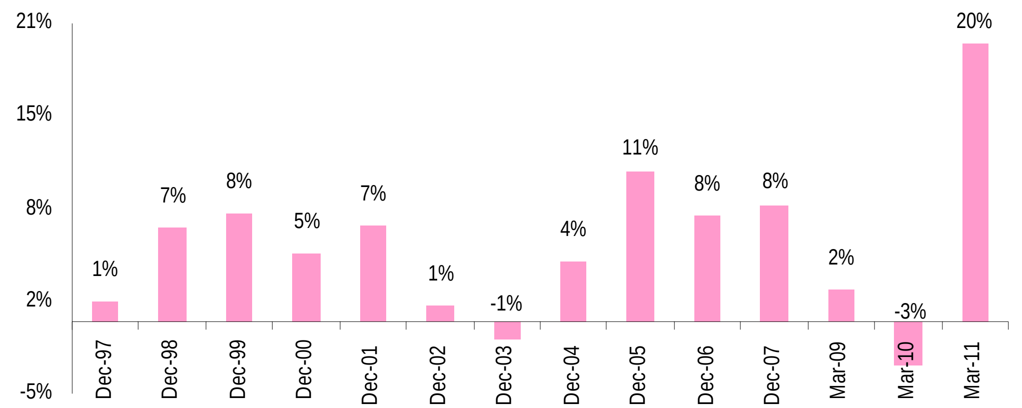


Source: PINC Research, Company ** Growth is adjusted for the change in financial year*

Detergents - persistence of high competitiveness

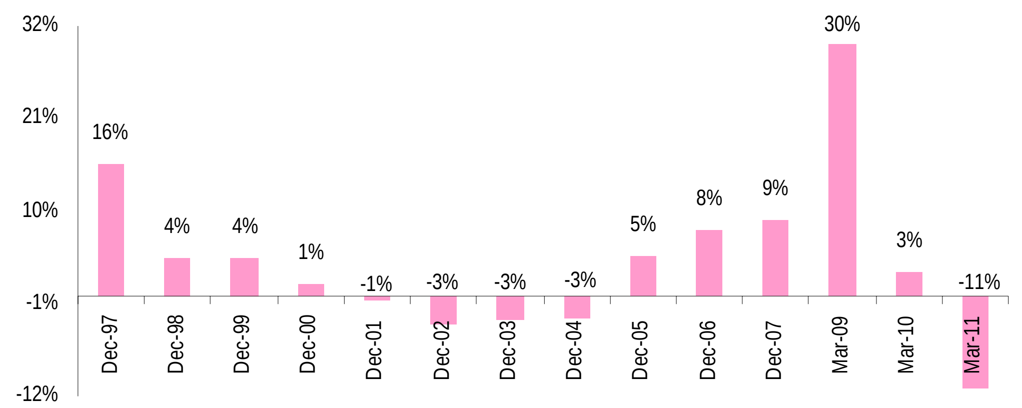
HUL operates its detergent business through Surf Excel, Rin and Wheel brand which caters to premium, economy and popular segments. It is largely volume driven business and popular segment (Wheel brand) covers half of the total detergent business.

Exhibit 28 - Detergent Volume Growth (%)



Source: PINC Research, Company

Exhibit 29 - Detergent Realisation Growth (%)



Source: PINC Research, Company

Detergent is like a commodity business

Detergent business is more of a commodity business, regional brands and household prepared detergent soaps also hold significant share in the detergent market. Detergent is one of those products which come into necessity product and very much available in households though the consumption level can be widely different among the households. We believe overall detergent volume market is growing at a very slow pace which is why the industry is very price sensitive. The growth for the branded detergent player would come through higher consumption and shift from unbranded product to branded products.

HUL's positioning in the detergent market

We have observed variability in the detergent business on account of rise in competitive intensity. Price war among the rivals has wiped off the price premium of this business. We believe HUL sacrificed profitability and managed market share at ~35%.

Nirma lost market share by ~750bps in past 5 years due to lack of focus in the business. HUL could not avail this opportunity while players like Rohit Surfactant (brand Ghari) and P&G expanded market share by ~650bps and ~150bps respectively during the past 5 years. Nirma basically caters to low price detergent segment that matches with Ghari's price point. Therefore, Ghari's aggressive efforts resulted into 25% sales CAGR during FY06-11.

Exhibit 30 - Detergent Peer Comparison

Key players	Brands	Sales (Rs bn) FY11/CY10	Sales CAGR% (last 5 years)	Volume CAGR% (last 5 years)	Value Mkt Share %	Value Mkt Share Change (last 5 years)
HUL	Surf Excel, Rin, Wheel	42	14%	7%	37%	-330bps
Rohit Surfactant	Ghari	21	25%	16%	19%	570bps
P&G	Tide, Ariel	12	18%	17%	11%	79bps
Nirma	Nirma	12	2%	-6%	11%	-958bps
Henkel	Henko, Mr. White, Check	2	9%	-4%	2%	-71bps
Others		23	26%			
Total		112	16%			

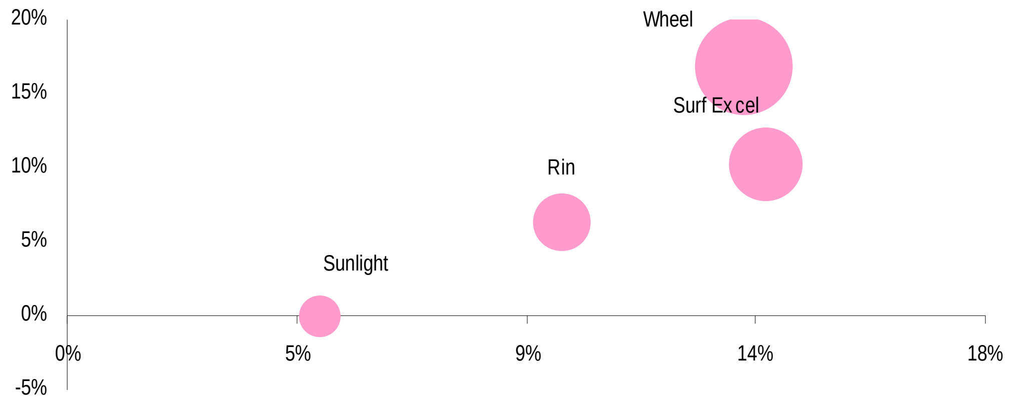
Source: PINC Research, Company, Industry

Exhibit 31 - Detergent Powder Peer Price Comparison

Products	Unit	MRP/unit	Category	Company
Henko Matic	gm	0.20	Premium	Henkel India
Ariel Oxy Blue Ultra Matic	gm	0.19	Premium	P&G
Surf Excel Quick wash	gm	0.16	Premium	HUL
Ariel Oxy Blue	gm	0.16	Premium	P&G
Henko Champion	gm	0.16	Premium	Henkel India
Henko Stain Champion	gm	0.13	Economy	Henkel India
Surf Excel Blue	gm	0.13	Economy	HUL
Tide Plus	gm	0.12	Economy	P&G
Henko	gm	0.12	Economy	Henkel India
Expert	gm	0.12	Economy	Spencer's
Techno Bright	gm	0.11	Economy	Jyothy Labs
Tide	gm	0.08	Economy	P&G
Rin Jasmine	gm	0.07	Economy	HUL
Rin	gm	0.07	Economy	HUL
Mr. White	gm	0.06	Economy	Henkel India
Ghari	gm	0.06	Popular	Rohit Surfactant
Active Wheel Gold	gm	0.04	Popular	HUL
Ghari	gm	0.04	Popular	Rohit Surfactant
Active Wheel	gm	0.03	Popular	HUL
Check	gm	0.02	Popular	Henkel India

Source: PINC Research, Retail Market Dec'2011

Exhibit 32 - Key detergent brands' sales (Rs mn), sales growth (%) & market share (%)

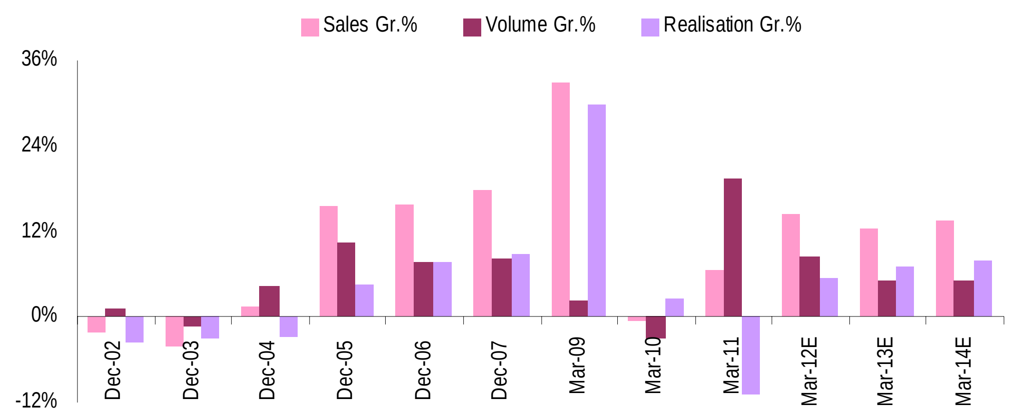


Source: PINC Research, Company, Industry
Note: X Axis-Sales CAGR (%) during FY08-11e, Y Axis-Market share in FY11e (%), Size of bubble- Sales (Rs mn) in FY11e

What do we expect?

We believe popular segment played a key role for the strong volume growth in FY11 and H1FY12. As we already stated that the volume growth for the branded products would come through higher detergent consumption and shift from unbranded product to branded products. The consumption shift is very gradual process and we don't expect any sudden change in that proposition. A shift from unbranded products to branded products is also not low hanging fruit as there is a wide price difference between these two. Therefore, we believe branded detergent market would remain competitive and price sensitivity would be higher for the category. We have already witnessed price war between HUL and P&G therefore we are not very optimistic for the segment. We expect HUL to clock 13.3% CAGR in detergent sales during FY11-14E.

Exhibit 33 - Soaps Growth Breakup



Source: PINC Research, Company * *Growth is adjusted for the change in financial year*

Change in the mix

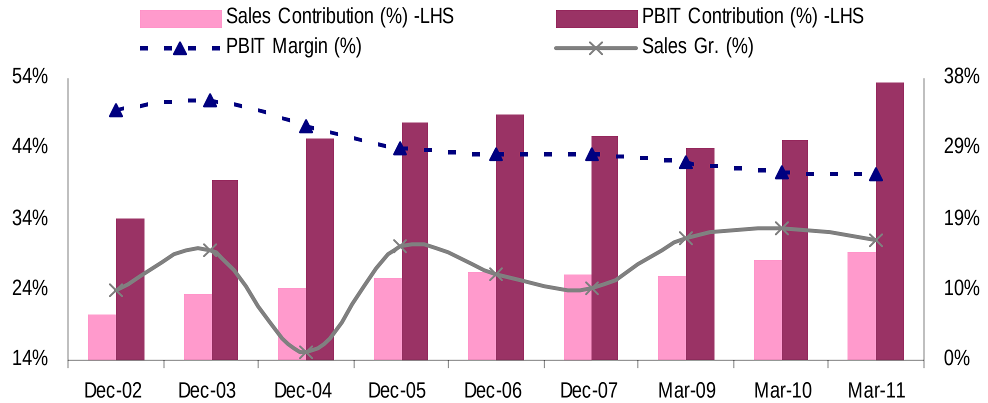
	Dec-02	Mar-11
Soaps & Detergent		
% of Sales	40%	44%
% of PBIT	51%	30%
Personal Care		
% of Sales	21%	29%
% of PBIT	34%	53%

Source: PINC Research, Company

Personal Care- profitability centre

HUL holds large product portfolio under personal care segment and covers skin care, oral care, hair care and deodorant categories. Personal care is the key profitability centre of HUL and contributes ~29% of sales and ~53% of PBIT. The profitability improvement in personal care has set off the lackluster performance of 'soap and detergent' segment in the past 10 years.

Exhibit 34 - Personal Care - Profitability Centre



Source: PINC Research, Company

Our understanding is that skin care is the largest contributor to the personal care segment with >35% contribution followed by shampoo and toothpaste.

Exhibit 35 - Personal Care Portfolio

Skin Care	Class	Shampoo	Class	Oral Care	Class
Pond's	Premium	Dove	Premium	Pepsodent	Premium
Lakme	Premium	Clear	Premium	Close-up	Economy
Pears	Premium	Sunsilk	Economy		
Fair & Lovely	Economy	Lux	Economy		
Vaseline	Popular	Clinic Plus	Popular		

Source: PINC Research, Company

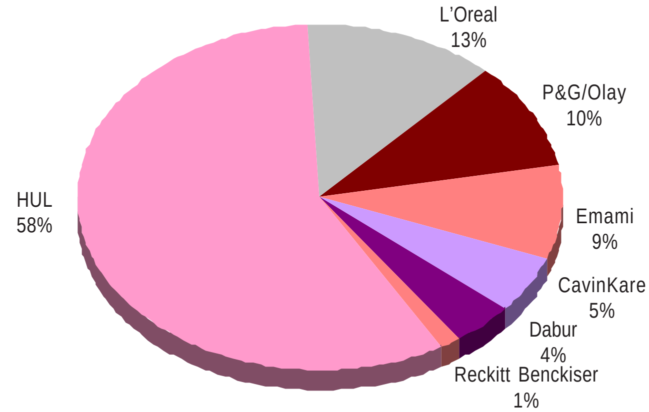
Skin care – money maker

We believe skin care is the largest contributor in sales and EBITDA among personal care segment with ~38% and ~50% share respectively. HUL is the market leader with >50% market share through brands like Pond's, Pears, Lakme, Fair & Lovely and Vaseline. Fair & Lovely is the key brand for HUL for skin care and is equally recognised in the rural and urban market.

HUL's positioning in skin care

Skin care is >Rs36bn market with fairness cream forming a dominant part. In India, skin care market is still resembled by the fairness cream market. HUL with an extensive product portfolio has the largest market share. This is the fastest and most profitable category in the personal care segment which is why many FMCG players entered in this category in past couple of years.

Exhibit 36 - Skin Care Share (%)



Source: PINC Research, Company

Fairness cream is the largest contributor in the skin care market in which HUL dominates with >65% market share. HUL has strong fairness cream portfolio under Pond's, Lakme, Dove and Fair & Lovely brands.

Exhibit 37 - Fairness Cream Peer Comparison

Fairness Cream (Day cream)	Unit	Qty	MRP	MRP/unit	Company
Olay Total Effects (Day cream)	gm	20	349	17.45	L'Oreal
Neutrogena Fairness Cream (SPF 20)	gm	50	299	5.98	Johnson & Johnson
Neutrogena Fairness Lotion	ml	50	250	5.00	Johnson & Johnson
Pond's Gold Radiance (Day Cream)	ml	50	799	15.98	HUL
Pond's Daily Whitening Cream (Green Flavour)	gm	50	249	4.98	HUL
Lakme Perfect Radiance (Fairness Cream)	gm	50	175	3.50	HUL
Pond's Lightning Cream	gm	50	150	3.00	HUL
Fair & Lovely Forever Glow	gm	50	99	1.98	HUL
Fair & Lovely Ayurvedic Balance Cream	gm	50	76	1.52	HUL
Fair & Lovely Winter Fairness Cream	gm	50	76	1.52	HUL
Fair & Lovely Multi Vitamin Cream	gm	80	114	1.43	HUL
Nivea Cream	ml	60	70	1.17	Beiersdorf AG
Nivea Soft Cream	ml	200	210	1.05	Beiersdorf AG
Nivea Cream	ml	200	160	0.80	Beiersdorf AG

Source: PINC Research, Retail Market Dec'2011

Exhibit 38 - Body Lotion Peer Comparison

Brands	Unit	MRP/unit	Category	Company
Lakme	ml	1.10	Premium	HUL
Nivea Lotion	ml	0.66	Premium	Beiersdorf AG
Garnier	ml	0.62	Premium	L'Oreal
Dove	ml	0.60	Premium	HUL
Vaseline	ml	0.55	Economy	HUL
Himalaya	ml	0.55	Economy	Himalaya Healthcare
Parachute Advance	ml	0.49	Economy	Marico
Pond's Triple Vitamin	ml	0.40	Economy	HUL

Source: PINC Research, Retail Market Dec'2011

Challenging Environment

HUL is facing a strong competition from L'Oreal, Johnson & Johnson, P&G and Beiersdorf AG (Nivea) in other skin care categories like Cleansers, Anti Aging, Sun Protection and Moisturiser. These are promising categories and outpacing the overall skin care growth.

P&G and L'Oreal intend to expand capacities in India and have expressed intention to tap opportunities in the skin care market. P&G and L'Oreal plan to invest ~Rs4bn and ~Rs5bn in the next couple of years. Both companies expect their skin care business growth in tune of >20% in medium term. We mention below the positioning of HUL's products in other skin care categories.

Exhibit 39 - Cleansers Peer Comparison

Cleansers/Face wash/Scrub/cleanser	Unit	Qty	MRP	MRP/unit	Company
Olay Cleansing	gm	50	99	1.98	L'Oreal
Olay Natural White Foaming Cleansing	gm	50	99	1.98	L'Oreal
Neutrogena Deep Clean Scrub	gm	100	240	2.40	Johnson & Johnson
Neutrogena Scrub	ml	125	225	1.80	Johnson & Johnson
Neutrogena Fairness Cleanser	gm	100	180	1.80	Johnson & Johnson
Neutrogena Deep Clean Cleaner	ml	200	350	1.75	Johnson & Johnson
Neutrogena Foaming Cleanser	gm	100	170	1.70	Johnson & Johnson
Pond's White Beauty Facial Foam	gm	100	105	1.05	HUL
Lakme Deep Pour Cleanser	ml	120	99	0.83	HUL
Pond's Daily Face Wash	gm	100	65	0.65	HUL

Source: PINC Research, Retail Market Dec'2011

Exhibit 40 - Moisturiser Peer Comparison

Moisturiser	Unit	Qty	MRP	MRP/unit	Company
Olay Moisturising Cream	gm	100	399	3.99	L'Oreal
Garnier Daily Moisturiser	gm	40	140	3.50	L'Oreal
Garnier Essential Care Daily Moisturiser Cream	gm	40	115	2.88	L'Oreal
Olay Moisturiser Lotion	ml	150	399	2.66	L'Oreal
Neutrogena Hand Cream	gm	56	240	4.29	Johnson & Johnson
Neutrogena Ultra Shield Body Moisturiser (SPF 30)	gm	141	600	4.26	Johnson & Johnson
Neutrogena Moisturiser	ml	115	299	2.60	Johnson & Johnson
Neutrogena Body Emulsion Daily Relief Lotion	ml	155	250	1.61	Johnson & Johnson
Neutrogena Body Moisturiser Dry Skin	ml	250	300	1.20	Johnson & Johnson
Lakme Perfect Radiance Lotion	ml	30	225	7.50	HUL
Lakme Deep Pour Moisturiser	ml	55	75	1.36	HUL

Source: PINC Research, Retail Market Dec'2011

Exhibit 41 - Anti Aging Cream Peer Comparison

Anti Aging	Unit	Qty	MRP	MRP/unit	Company
Olay Anti Aging Serum	ml	50	700	14.00	L'Oreal
Garnier Anti Dark Circle (Roll on)	ml	15	199	13.27	L'Oreal
Garnier Age Lift (Roll on)	ml	50	399	7.98	L'Oreal
Garnier Wrinkle Lift Anti Aging	gm	40	235	5.88	L'Oreal
Neutrogena Eye	ml	14	549	39.21	Johnson & Johnson
Neutrogena Rapid Wrinkle Repair	ml	29	799	27.55	Johnson & Johnson
Pond's Age Miracle Serum	ml	30	695	23.17	HUL
Pond's Flawless Under Age	ml	15	249	16.60	HUL
Pond's Age Miracle Anti Aging Moisturiser	ml	30	215	7.17	HUL
Pond's Age Miracle (Day Cream)	gm	50	349	6.98	HUL
Fair & Lovely Anti Marks	gm	50	90	1.80	HUL
Nivea Sparkling Glow Age Control	ml	50	329	6.58	Beiersdorf AG

Source: PINC Research, Retail Market Dec'2011

Exhibit 42 - Sun Protection Solution Peer Comparison

Sun Protection	Unit	Qty	MRP	MRP/unit	Company
Olay UV Blocker	ml	50	299	5.98	L'Oreal
Garnier Sun Control Daily Moisturiser	ml	50	130	2.60	L'Oreal
Pond's UV Cream	ml	50	299	5.98	HUL
Lakme Sun Expert Gel	gm	50	145	2.90	HUL
Lakme Sun Expert Skin Lightning Mask	gm	50	150	3.00	HUL

Source: PINC Research, Retail Market Dec'2011

What do we expect?

We believe skin care market is still dominated by the fairness cream and most of other categories are at the nascent stage. We expect skin care market has immense potential to develop owing to the change in the consumer's life style, rise in disposable income and higher consciousness towards the beauty products. Besides, men's skin care market has grown at double pace compared to the women's skin care market. Although it forms only ~10% of the overall skin care market share but growth opportunity is very promising.

HUL has developed four strong brands (Pond's, Lakme, Dove and Fair & Lovely) in skin care which would help the company to compete well. Our take is that skin care industry is still evolving and each player will get opportunity to expand. The segment is very profitable and dominated by the MNC players which typically work on high profitable model. We expect HUL to maintain its high growth momentum with strong profitability.

Shampoo – "Dove" flies

HUL has large product portfolio for its shampoo business with Dove, Clear, Sunsilk, Lux and Clinic Plus brands. Shampoo is second largest category in HUL's personal care business and we expect that it contributes ~25% of the segment.

HUL's positioning in Shampoo category

HUL enjoys leadership position with ~45% market share followed by P&G, CavinKare and Dabur. The price war between HUL and P&G has changed the dynamics of shampoo business that resulted into low profitability of this business.

Clinic Plus is the largest selling shampoo…

Exhibit 43 - Shampoo Peer Comparison

Key players	Brands	Sales (Rs bn) FY11/CY10	Sales CAGR (last 5 years)	Value Mkt Share
HUL	Dove, Clear, Sunsilk, Lux, Clinic Plus	15	13%	45%
P&G	Pantene, Head & Shoulders, Rejoice	7	16%	21%
CavinKare	Chik, Meera	4	na	11%
Dabur	Vatika	2	23%	4%
Others		6	18%	
Total		**34**	**14%**	

Source: PINC Research, Company, Industry

Exhibit 44 - Shampoo Peer Price Comparison

Shampoo	Unit	MRP/unit	Category	Company
Vatika Anti Dandruff	ml	0.60	Premium	Dabur India
Garnier Fortifying	ml	0.59	Premium	L'Oreal
Garnier Damaged Care	ml	0.59	Premium	L'Oreal
Fiama Di Wills	ml	0.58	Premium	ITC
Head & Shoulder	ml	0.56	Economy	P&G
Dove	ml	0.56	Economy	HUL
Clear (Anti Dandruff)	ml	0.56	Economy	HUL
Clear Menthol	ml	0.56	Economy	HUL
L'Oreal Total Repair	ml	0.55	Economy	L'Oreal
L'Oreal Nutri Gloss	ml	0.55	Economy	L'Oreal
Pantene	ml	0.52	Economy	P&G
L'Oreal Smooth Intense	ml	0.50	Economy	L'Oreal
Himalaya	ml	0.50	Economy	Himalaya Healthcare
L'Oreal Color Protect	ml	0.50	Economy	L'Oreal
Vatika Sun Protect	ml	0.50	Economy	Dabur India
Sunsilk Hair Fall	ml	0.46	Popular	HUL
Vivel	ml	0.45	Popular	ITC
Clinic Plus	ml	0.41	Popular	HUL
Nyle	ml	0.35	Popular	CavinKare
Vatika Smooth and Silky	ml	0.33	Popular	Dabur India

Source: PINC Research, Retail Market Dec'2011

What do we expect?

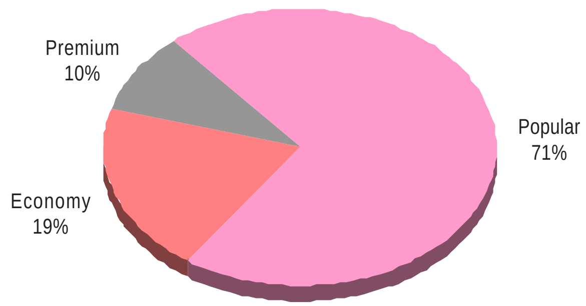
We believe HUL's shampoo business is still dominated by Clinic Plus which caters to popular segment. Clinic Plus brand is very well established in both rural and urban markets. Recent sharp price cut on Clinic Plus franchise has impacted several other shampoo players which are largely into rural market. Dabur was among the one who faced strong heat from such an action.

However, HUL's shampoo business would be supported by strong positioning of Dove franchise. Dove, since its launch in hair care range in 2007, has created a new category in the shampoo space. We believe higher marketing spend and strong consumer acceptance would maintain high growth rate for Dove in the coming years. We expect HUL would show ~15% CAGR in shampoo business during FY11-14E.

Oral care– scope of price growth

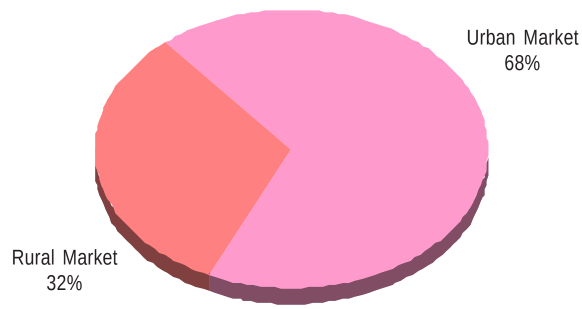
In the oral care market, HUL has a presence only in the toothpaste market. Toothpaste is also key category for HUL's personal care segment and we believe it contributes ~15% of the segment. HUL holds Pepsodent and Closeup brands that cater to expensive and economy segment in the toothpaste market respectively.

Exhibit 45 - Toothpaste Segment Breakup



Source: PINC Research, Company, Industry

Exhibit 46 - Toothpaste Market Mix



Source: PINC Research, Company, Industry

HUL's positioning in Oral care

Oral care market is dominated by top 3 players i.e. Colgate Palmolive India (Colgate), HUL and Dabur with combined contribution of >80% of the total oral care market. HUL is the number 2 player with >25% market share in the toothpaste market which is fairly dominated by Colgate Palmolive India (Colgate) with >50% market share.

Exhibit 47 - Toothpaste Peer Comparison

Key players	Brands	Sales (Rs bn) FY11/CY10	Sales CAGR% (last 5 years)	Value Mkt Share %
Colgate	Colgate	18	14%	51%
HUL	Pepsodent, Closeup	9	12%	27%
Dabur	Dabur Red, Babool, Meswak	4	13%	13%
Amar Remedies	Amar, Smiles	3	27%	9%
Total		**35**	**14%**	

Source: PINC Research, Company, Industry

HUL has no presence in the premium market…

We believe large part of HUL's toothpaste sales comes from the economy segment…

Exhibit 48 - Toothpaste Peer Price Comparison

Oral Care	Unit	MRP/unit	Category	Company
Colgate Sensitive Pro Relief	gm	1.50	Premium	Colgate Palmolive
Sensodyne	gm	1.13	Premium	GSK Asia
Colgate Sensitive Original	gm	1.00	Premium	Colgate Palmolive
Colgate Total	gm	0.55	Economy	Colgate Palmolive
Pepsodent Gum Care	gm	0.45	Economy	HUL
Colgate Max White	gm	0.43	Economy	Colgate Palmolive
Close up Fire Freeze	gm	0.43	Economy	HUL
Close up Menthol	gm	0.43	Economy	HUL
Colgate Max Fresh	gm	0.41	Economy	Colgate Palmolive
Pepsodent Centre Fresh	gm	0.41	Economy	HUL
Pepsodent Whitening	gm	0.41	Economy	HUL
Close up Lemon Mint	gm	0.41	Economy	HUL
Close up Pepper Mint	gm	0.40	Economy	HUL
Close up Red Hot	gm	0.40	Economy	HUL
Himalaya	gm	0.40	Economy	Himalaya Healthcare
Pepsodent Germi Check 2in1	gm	0.39	Economy	HUL
Close up Milk Calcium	gm	0.39	Economy	HUL
Colgate Active Salt	gm	0.35	Economy	Colgate Palmolive
Meswak	gm	0.33	Popular	Dabur India
Dabur Red	gm	0.32	Popular	Dabur India
Colgate Dental Cream	gm	0.31	Popular	Colgate Palmolive
Pepsodent Germi Check Magnet	gm	0.30	Popular	HUL
Colgate Herbal	gm	0.29	Popular	Colgate Palmolive
Neem	gm	0.26	Popular	Natural & Nature
Babool	gm	0.18	Popular	Dabur India
Colgate Cibaca	gm	0.18	Popular	Colgate Palmolive
Promise	gm	0.17	Popular	Dabur India

Source: PINC Research, Retail Market Dec'2011

What do we expect?

Historically, large part of the toothpaste market growth was based on the volume growth. We expect 9-10% toothpaste volume growth is sustainable in the medium term as India's oral care market is still under developed. Our per capita toothpaste consumption is lowest among the peer nations. However in the toothpaste market, most of the recent launches were in the premium segment and we believe that oral care market is now set for the value growth too. Toothpaste cost is insignificant in the monthly household expense therefore consumer market has appetite for price increase on the existing products as well as additional launches in the premium products. Our belief is that going forward toothpaste market would grow through a healthy mix of price and volume.

For HUL, we believe its large part of toothpaste sales comes from the 'Economy segment' as it has no presence in the 'Premium segment' while 'Popular segment' is largely dominated by Colgate Palmolive (Colgate) and Dabur India. Pepsodent and Close-up brands are well settled in the urban and modern trade market and HUL can enter into other oral care products like mouthwash where Colgate is a leader. Colgate will remain a big threat for HUL. Colgate is not only the market leader but also very aggressive in the field level therefore snatching market share from Colgate is a difficult task. Overall our take is that HUL will continue to grow slower than its peers and should clock 11% CAGR in toothpaste business during FY11-14E.

What do we expect for Personal care segment?

We believe personal care category would continue to lead HUL on profitability front. In our opinion, skin care is the largest contributor of personal care business and contributes ~50% of personal care EBITDA. Skin care is the most promising categories in the personal care space where we expect growth potential is immense. India's favourable demographic change would be beneficial more for skin care market.

Exhibit 49 - Sales and EBITDA Mix Estimates of Personal Care Category

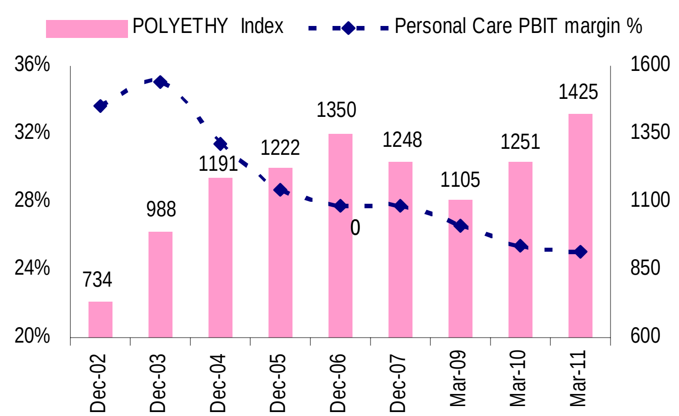
Categories	Sales Mix (%)	EBITDA Mix (%)
Skin Care	38%	50%
Shampoo	26%	18%
Oral Care	17%	12%
Color Cosmetics	8%	10%
Deodorant	4%	7%
Others	6%	7%

Source: PINC Research

Although several domestic and MNCs are expanding personal care capacities in India, we believe it would rather help the category growth. Skin care market is still under developed market and competition would increase consumers' consciousness towards the beauty products.

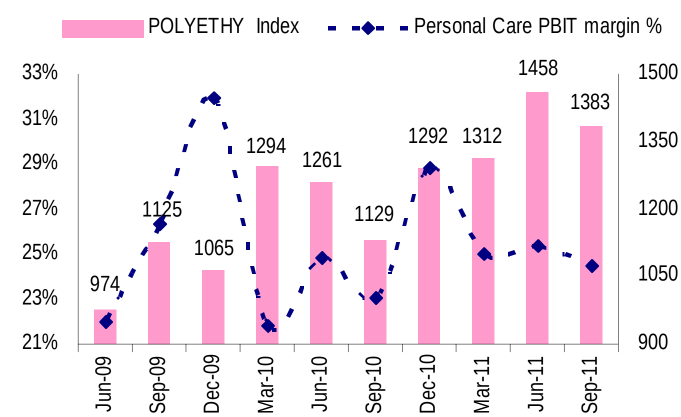
HUL's large product portfolio in each of the categories would make the company more competitive. Strong growth in skin care would adjust the profitability pressure in other categories like shampoo and oral care and would help in maintaining the profitability profile of the personal care segment.

Exhibit 50 - Packaging Impact on PBIT Margin (Yr)



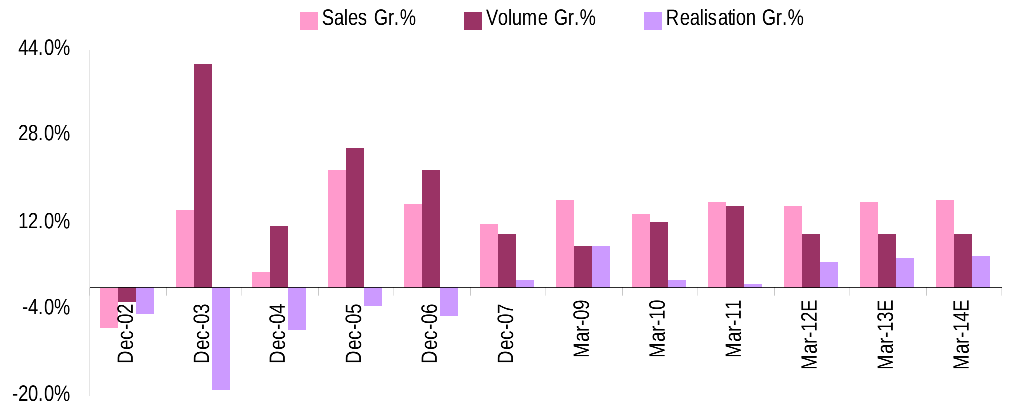
Source: PINC Research, Bloomberg

Exhibit 51 - Packaging Impact on PBIT Margin (Qt)



Source: PINC Research, Bloomberg

Exhibit 52 - Personal Care Expected Growth



Source: PINC Research, Company ** Growth is adjusted for the change in financial year*

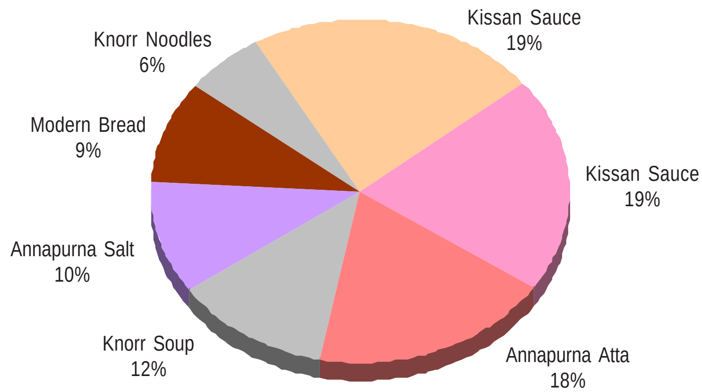
Foods Business-profitability is a concern

HUL operates Food business under Kissan, Annapurna, Knorr and Modern brands. Kissan is one of the oldest brands in India and the brand covers Jam, Tomato Ketchup and Squash products for HUL. Annapurna brand covers packaged Atta and Salt while Knorr brand envelop Soups and Noodles.

Branded staple foods which include Annapurna Atta, Salt and Modern bread could not positioned well in the market. These three brands faced stiff competition from the branded and unbranded products. ITC's Aashirvaad Atta has always been a big hurdle in the urban market (especially modern trade) for HUL's Annapurna. While Tata's Salt is fairly a leader in the urban and rural market and impacted Annapurna Salt. Although Modern bread is well known brand in modern trade but it could not compete with the regional players.

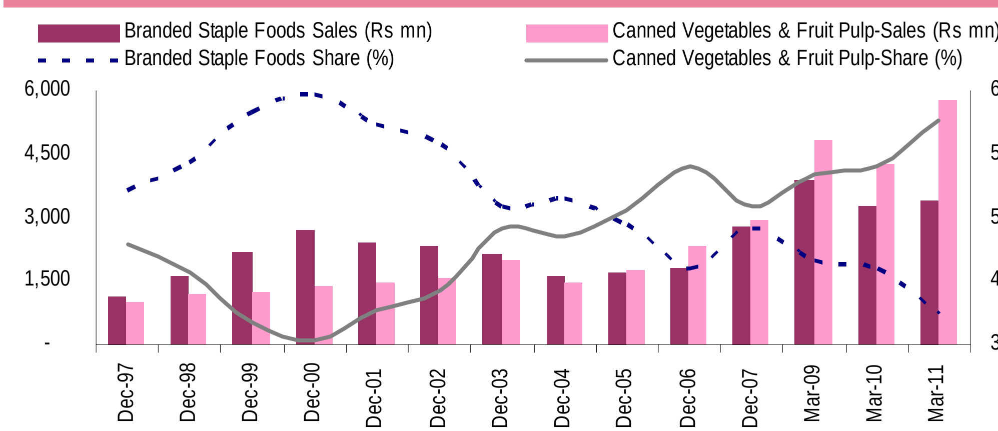
Canned vegetable and fruit pulp segment is dominated by Kissan and Knorr brand. HUL is the leader in the branded market for Jam, Sauce and Soup. Kissan brand is positioned well in the urban and rural market while Knorr soup and noodles are relatively urban market products with its large acceptance in the modern trade.

Exhibit 53 - Food Business Mix



Source: PINC Research, Company

Exhibit 54 - Food Business Mix

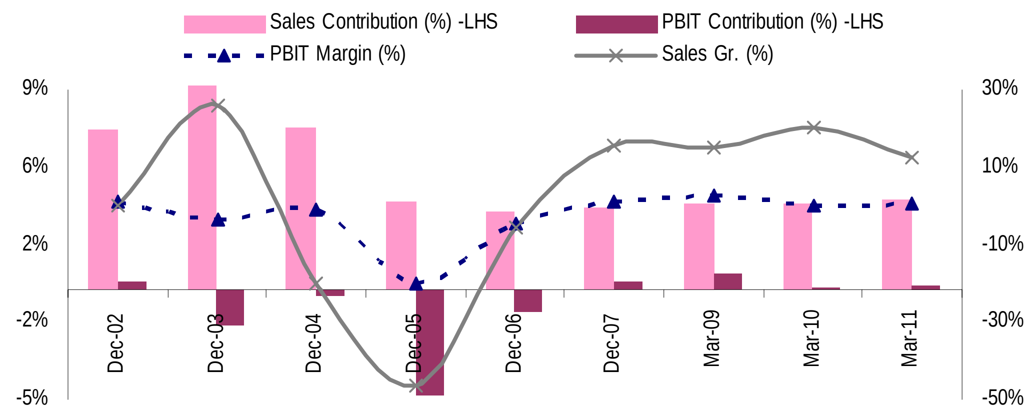


Source: PINC Research, Company

Concern over profitability remains

Profitability of the food business has always been a concern for HUL. We are not very optimistic for HUL's food business as most of the products are into those categories where unorganised players have strong dominance. We don't expect any significant contribution in the sales and profitability in the next three years.

Exhibit 55 - Food Business Performance

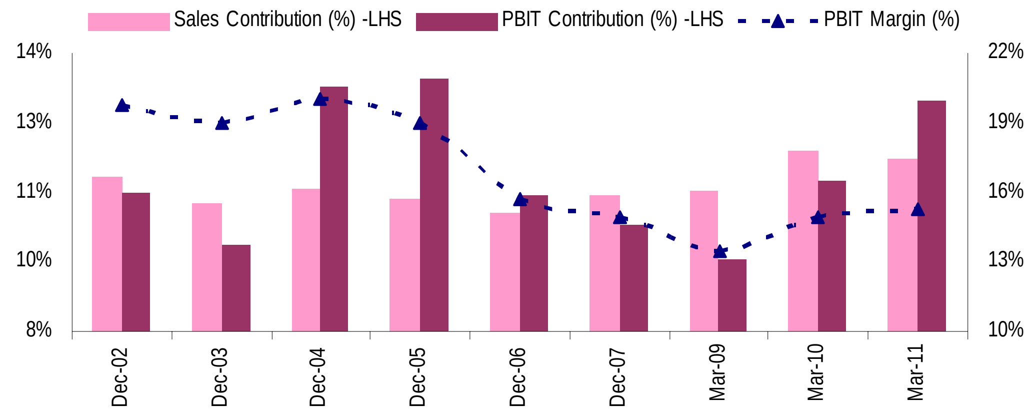


Source: PINC Research, Company

Beverages

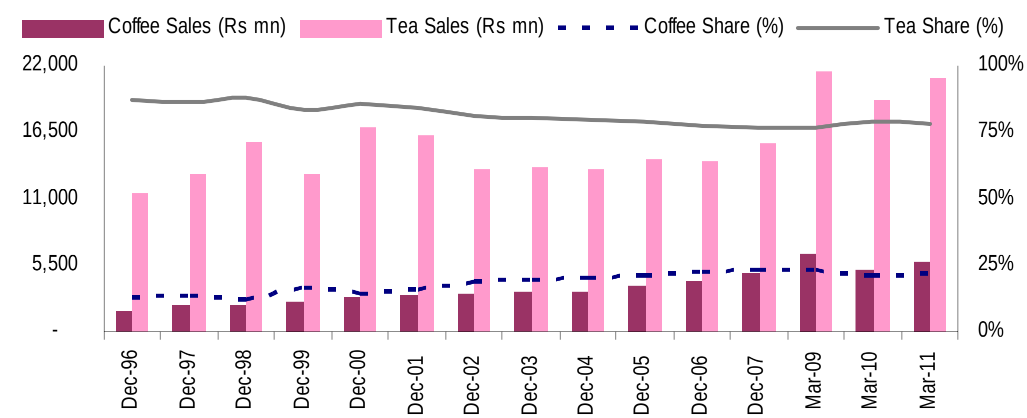
Beverage business contributes 12% and 14% of sales and PBIT for HUL respectively. Tea business dominates HUL's beverage business and contributes >80% of the total sales. In tea business HUL owns Taj Mahal, Lipton, Brooke Bond Red Label and Taaza brands while coffee business operates through 'Bru' brand.

Exhibit 56 - Beverage Business Performance



Source: PINC Research, Company

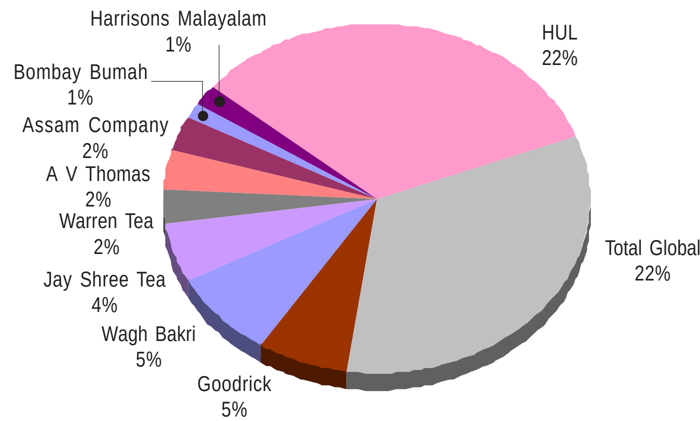
Exhibit 57 - Beverage Business Breakup



Source: PINC Research, Company

HUL and Tata Global Beverage are the leaders in the domestic tea business with almost equal market share. Tea market in India is largely dominated by the small players and we believe these small players are snatching market share from the big players.

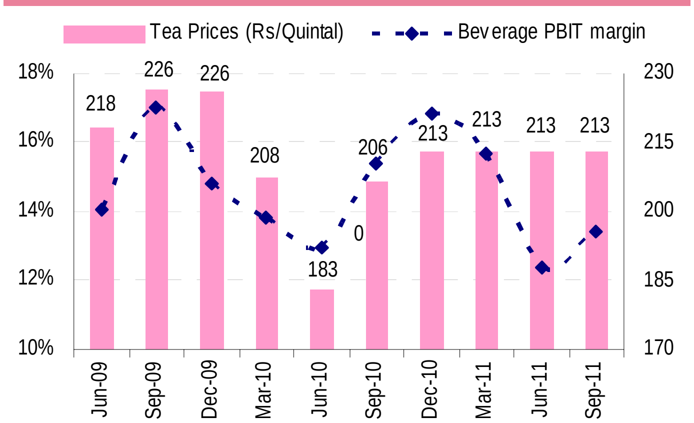
Exhibit 58 - Tea Players' Market Share



Source: PINC Research, Industry, Capitaline

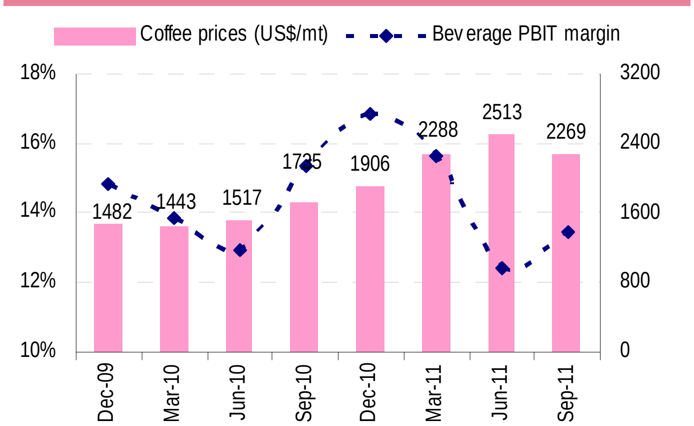
Tea and Coffee prices in India are sensitive to global prices therefore macro level changes impact a lot on the domestic price scenario. Beverage contribution in HUL's sales and PBIT has increased in past 4 years and being one of the critical segments for HUL. We expect HUL's beverage business to show 12% CAGR during FY11-14E.

Exhibit 59 - Tea Prices and Beverage PBIT Margin



Source: PINC Research, Bloomberg

Exhibit 60 - Coffee Prices and Beverage PBIT Margin



Source: PINC Research, Bloomberg

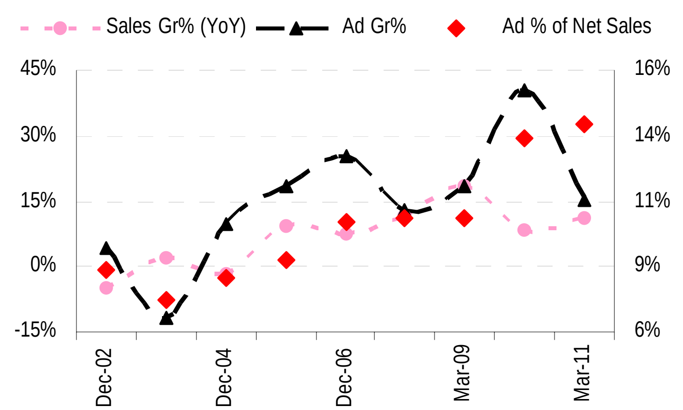
Impact of advertisement spending on sales growth

We observe that most of the FMCG companies were very aggressive during FY10 and spent huge amount on advertisements. Favourable input prices scenario had supported that extra money spent on branding. While the benefit in terms of sales growth was not in line. In most of the cases growth in advertisement spending was higher than the sales growth achieved while Colgate and ITC were only exceptional.

HUL's slower sales growth despite spending too much on advertisement has made it one of the highest spending companies on advertisement. This led to a jump in HUL's advertisement expense (% of net sales) by 360bps in the last two years. However, robust sales growth has helped other FMCG companies in maintaining advertisement expenses level during FY09-11. In the last two years, advertisement level has improved moderately for Nestle, Marico and Dabur by 34bps, 90bps and 87bps while there was decline for Colgate and ITC by 26bps and 28bps respectively.

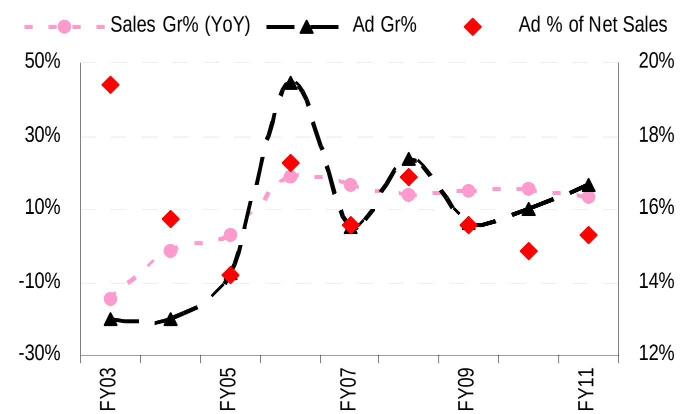
We expect HUL's advertisement expenses (% of net sales) would be lower at ~11% in FY12 v/s 14% in FY11 on account of pressure of commodity prices. While due to the ease in the input price pressure and higher advertisement requirement for personal care products, we expect advertisement spend should be ~11.5% and ~12% in FY13E and FY14E respectively.

Exhibit 61 - HUL



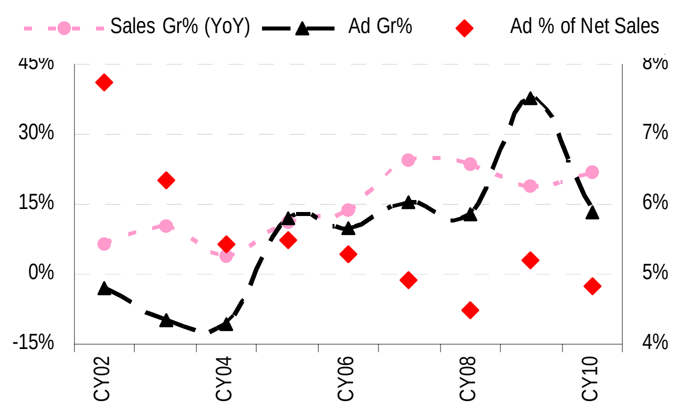
Source: PINC Research, Company

Exhibit 62 - Colgate



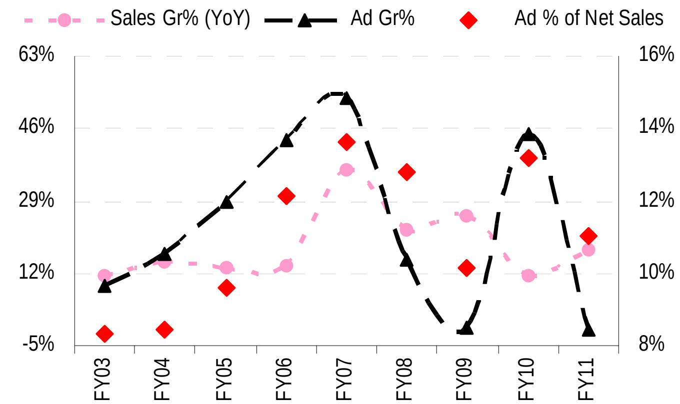
Source: PINC Research, Company

Exhibit 63 - Nestle



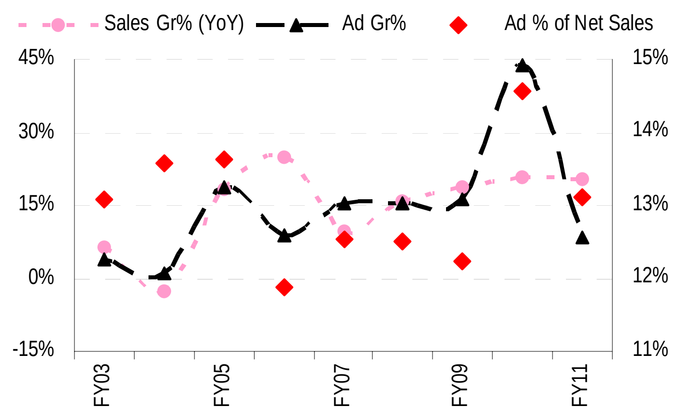
Source: PINC Research, Company

Exhibit 64 - Marico



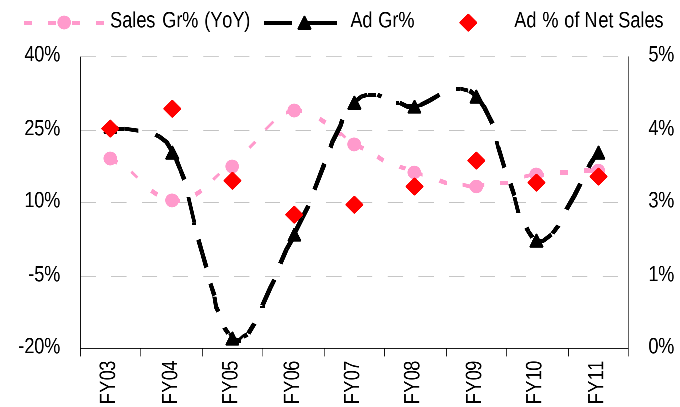
Source: PINC Research, Company

Exhibit 65 - Dabur



Source: PINC Research, Company

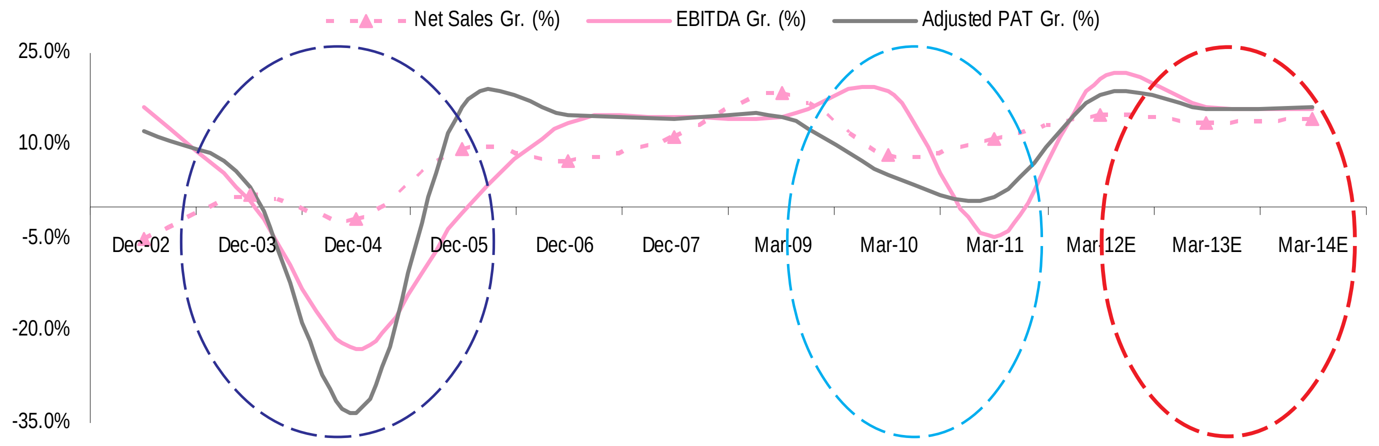
Exhibit 66 - ITC



Source: PINC Research, Company

Financial Analysis

Exhibit 67 - HUL's Business Performance

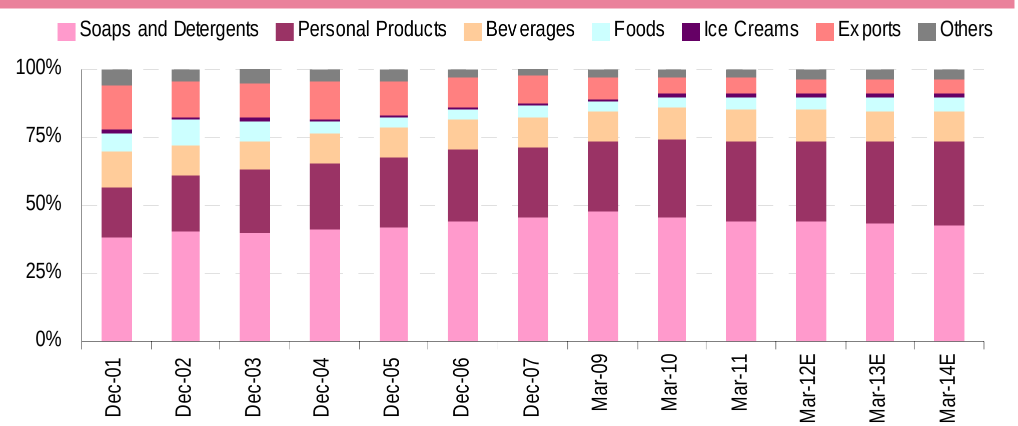


Source: PINC Research, Company

- HUL's performance during 2003-2005 was extremely under pressure owing to industrywise slowdown. Most of the FMCG companies faced volume pressure, sector sales growth during that time was <5%. HUL's PBIT margin for 'Soaps and Detergent' segment during that time was declined by >1000bps and it resulted into >500bps decline in overall EBITDA margin.
- HUL faced sales growth pressure during FY10 and net sales grew by mere 8%. This slower growth was account of higher peer pressure on 'Soaps and Detergent' segment which displayed >5% growth during FY10. HUL's profitability in FY11 was impact due to higher input price pressure and down trading in soaps and detergents segment.
- Going forward we expect similar growth in sales, EBITDA and PAT.

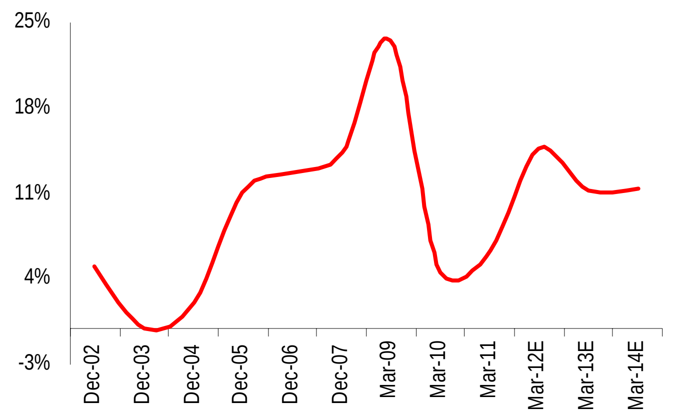
Soaps and Detergent segment dominate in HUL's business…

Exhibit 68 - HUL's Business Mix



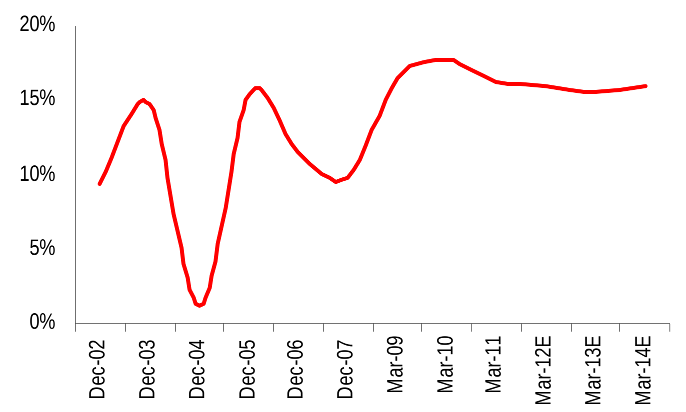
Source: PINC Research, Company

Exhibit 69 - Soaps and Detergent Gr. (%)



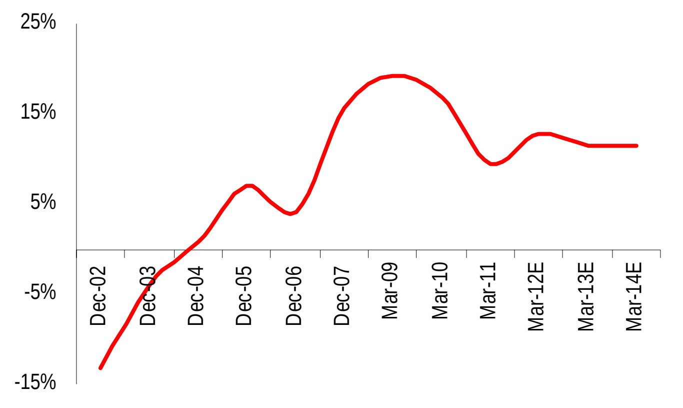
Source: PINC Research, Company

Exhibit 70 - Personal Care Gr. (%)



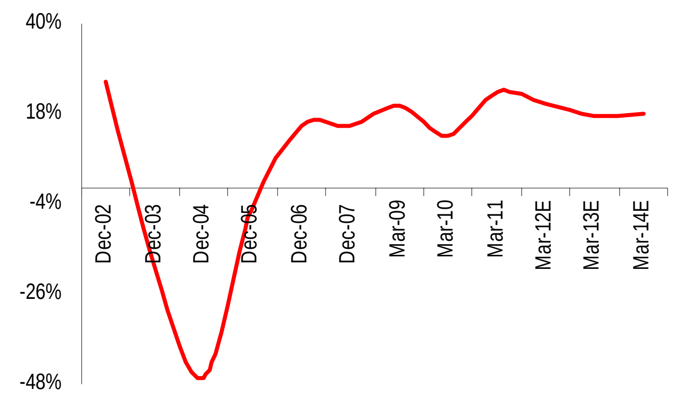
Source: PINC Research, Company

Exhibit 71 - Beverage Business Gr. (%)



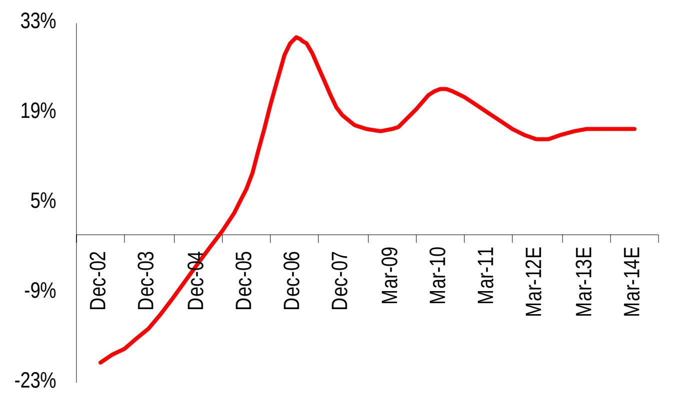
Source: PINC Research, Company

Exhibit 72 - Food Business Gr. (%)



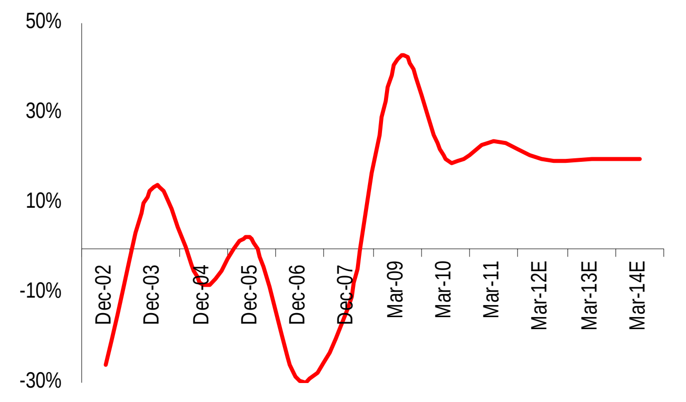
Source: PINC Research, Company

Exhibit 73 - Ice Cream Gr. (%)



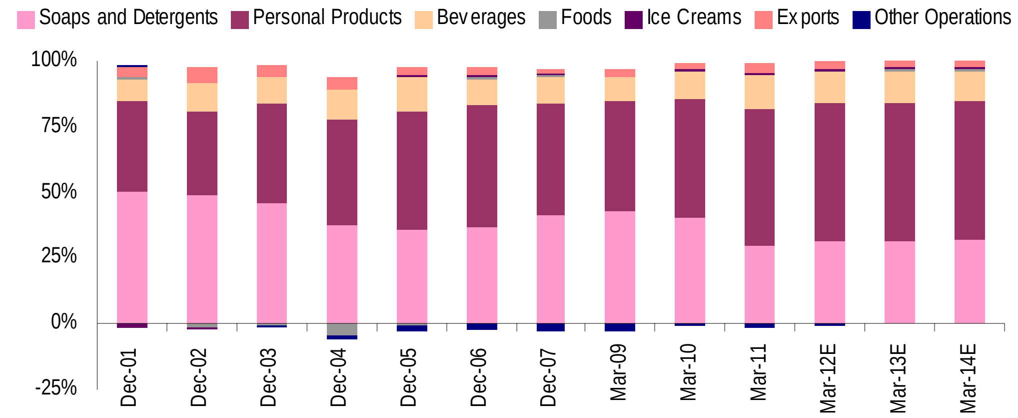
Source: PINC Research, Company

Exhibit 74 - Other Business Gr. (%)



Source: PINC Research, Company

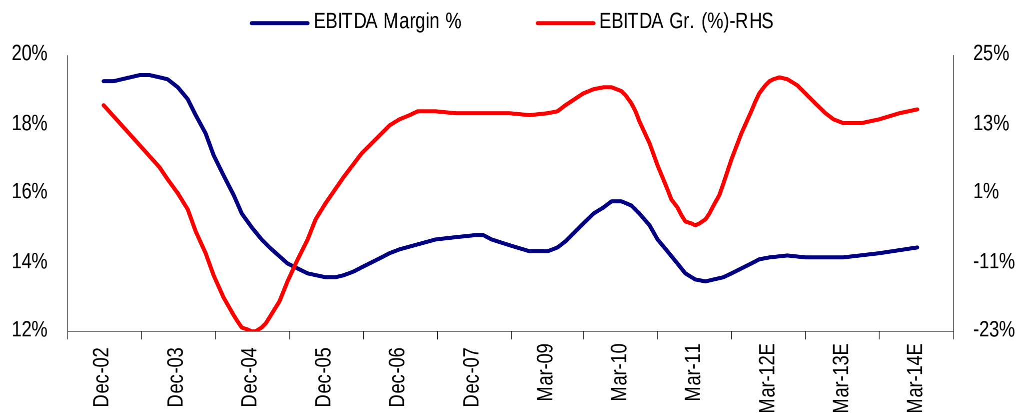
Exhibit 75 - Profitability Mix (%)



Source: PINC Research, Company

High margin of Personal care business has changed the profitability mix…

Exhibit 76 - EBITDA Margin and YoY Gr. (%)



Source: PINC Research, Company

Profitability has gradually come down…

We observed HUL's long history and found that the profitability had impacted a lot on account of higher focus on branding. Better revenue mix reduced the raw material cost (% of net sales) by 250bps in past 10 years while EBITDA margin shrunk by >600bps due to higher discretionary spending.

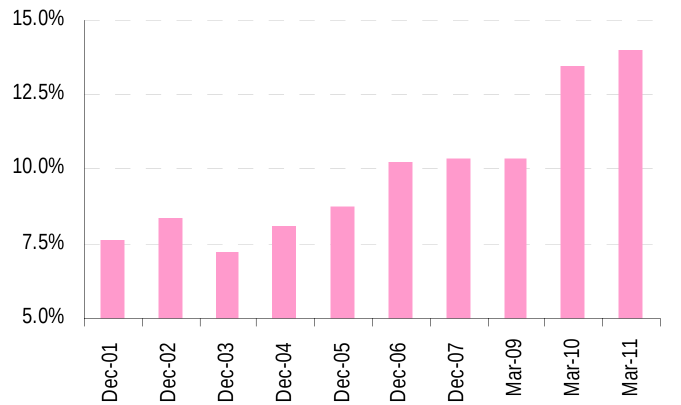
Exhibit 77 - RM Cost (% of net sales)

Source: PINC Research, Company

Exhibit 78 - Packaging Cost (% of net sales)

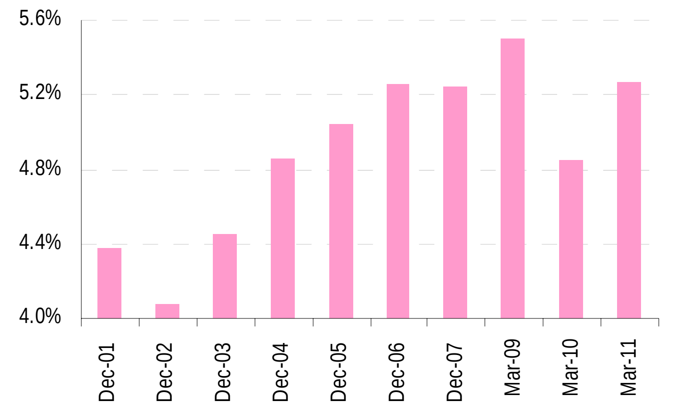
Source: PINC Research, Company

Exhibit 79 - Advertisement Cost (% of net sales)



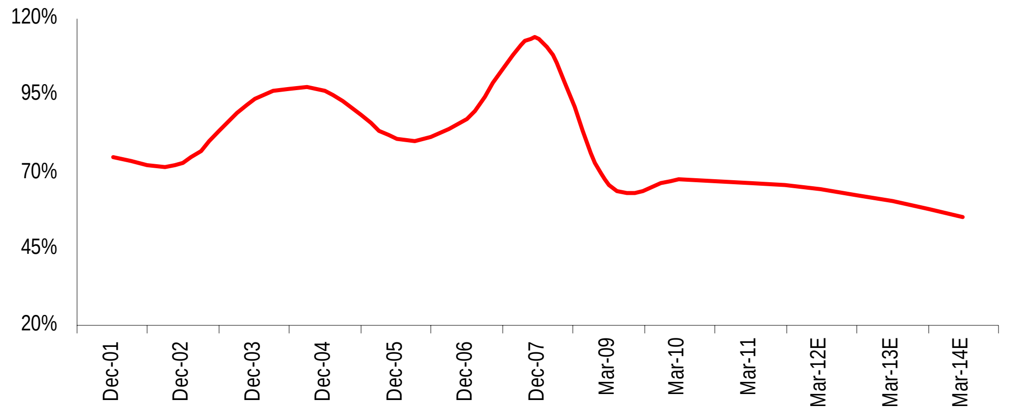
Source: PINC Research, Company

Exhibit 80 - Distribution Cost (% of net sales)



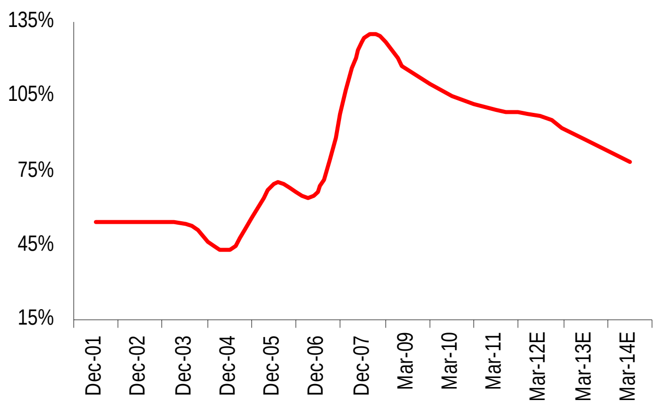
Source: PINC Research, Company

Exhibit 81 - Dividend Payout Ratio (%)



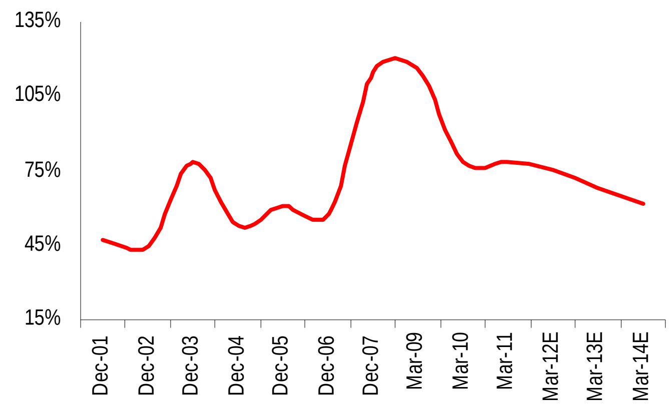
Source: PINC Research, Company

Exhibit 82 - ROCE (%)



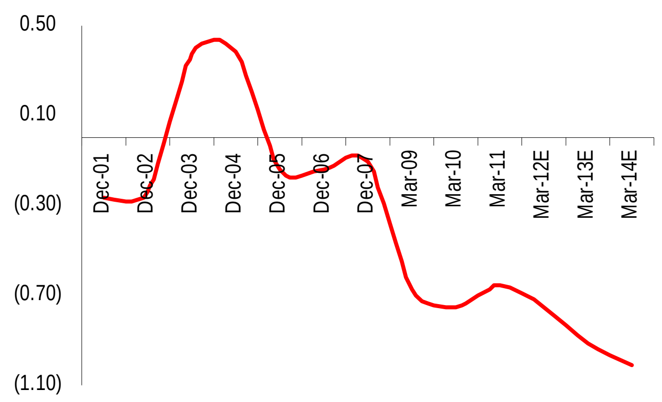
Source: PINC Research, Company

Exhibit 83 - ROE (%)



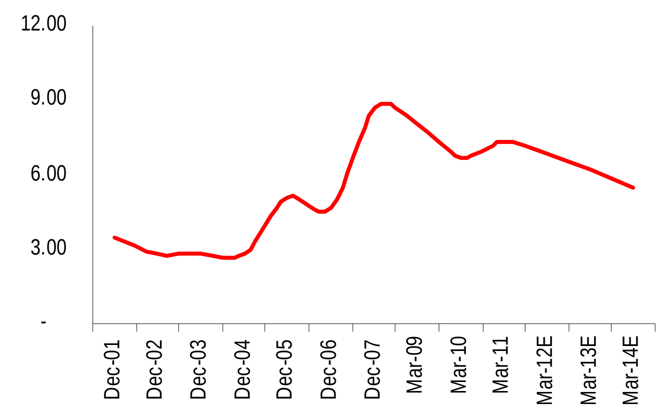
Source: PINC Research, Company

Exhibit 84 - Net Debt Equity Ratio (%)



Source: PINC Research, Company

Exhibit 85 - Asset Turn Ratio (%)



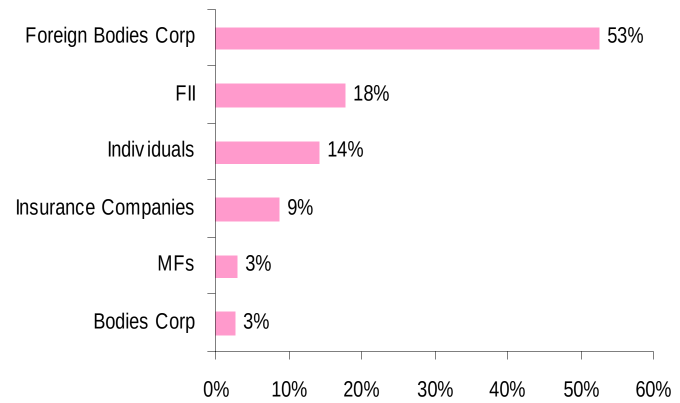
Source: PINC Research, Company

Company Background

HUL is the largest FMCG manufacturer in India, having presence in Soaps, Detergents, Skin care, Oral care, Hair Care, Staple Foods and Beverages. HUL was formed in 1933 as Lever Brothers India Ltd and came into being in 1956 as Hindustan Lever Ltd (HLL) through a merger of Lever Brothers, Hindustan Vanaspasti Manufacturing Company Ltd and United Traders Ltd. Later in mid 2007, the company was renamed as "Hindustan Unilever Ltd."

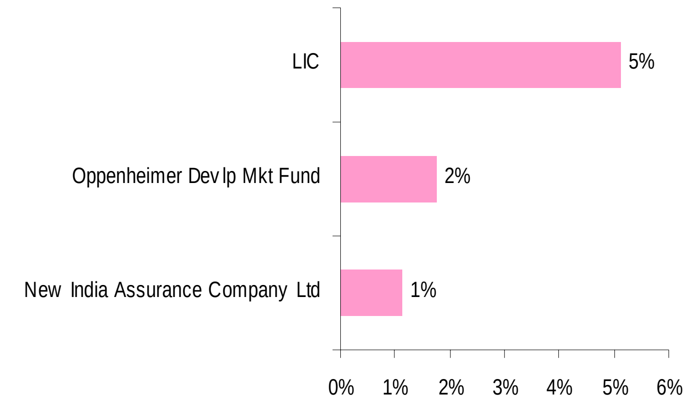
HUL is owned by the European company Unilever and owns ~52% majority stake. HUL is one of the key script in the stock indices and carries >3% weightage in the BSE SENSEX.

Exhibit 86 - Shareholding Pattern (%)



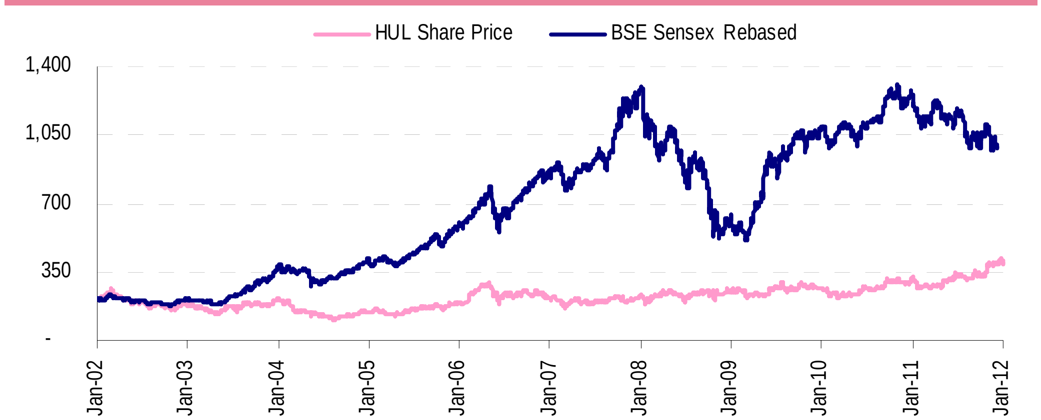
Source: PINC Research, BSE Sep'2011 Shareholdings

Exhibit 87 - Holding More Than 1% of the Total Shares



Source: PINC Research, BSE Sep'2011 Shareholdings

Exhibit 88 - HUL Share Price History v/s BSE Sensex Rebased



Source: PINC Research, Bloomberg

Exhibit 89 - HUL's Business History

Announce Date	Target Name	Acquirer Name	Seller Name	Announced Total Value (Rs mn)	Payment Type
12-Feb-98	Ponds India Ltd	Hindustan Unilever Ltd		40,424	Stock
27-Jan-06	Nihar brand	Marico Ltd	Hindustan Unilever Ltd	2,160	Cash
28-Mar-01	Quest International India Ltd	Akzo Nobel India Ltd	Hindustan Unilever Ltd	1,520	Cash
11-Oct-00	International Bestfoods Ltd	Hindustan Unilever Ltd		1,306	Stock
1-Apr-02	Paras Extra Growth Seeds Ltd	India Seeds Holdings Ltd	Hindustan Unilever Ltd	1,150	Undisclosed
27-Feb-01	Modern Food Industries India Ltd	Hindustan Unilever Ltd	Republic of India	1,050	Cash
20-Jun-03	Edible oils & fats business	Bunge Ltd	Hindustan Unilever Ltd	900	Cash
1-Mar-06	Tea Estates India Ltd/India	Woodbriar Group	Hindustan Unilever Ltd	710	Cash
25-Sep-07	Hindustan Unilever Ltd	Shareholders		626	
13-Dec-05	Doom Dooma Tea Co	BM Khaitan Group	Hindustan Unilever Ltd	690	Cash
26-May-06	Quest International India Ltd	Akzo Nobel India Ltd	Hindustan Unilever Ltd	540	Cash
9-Aug-05	Vashishti Detergents Ltd	Hindustan Unilever Ltd		494	Stock
15-Jan-01	Gold Mohur Foods & Feeds Ltd	Godrej Industries Ltd	Hindustan Unilever Ltd	450	Cash
27-Feb-02	Modern Food Industries India Ltd	Hindustan Unilever Ltd	Republic of India	440	Cash
20-Nov-01	Catalyst business	Akzo Nobel India Ltd	Hindustan Unilever Ltd	210	Cash
3-May-99	Industrial Perfumes Ltd	Hindustan Unilever Ltd	Unilever NV	N/A	Stock
20-Sep-01	Gold Mohur Foods & Feeds Ltd	Godrej Industries Ltd	Hindustan Unilever Ltd	N/A	Undisclosed
8-Apr-03	Shrimp & crabmeat business	Hindustan Unilever Ltd	Amalgam Enterprises Ltd	N/A	Undisclosed
17-Apr-03	Glucose drink brand	Wipro Ltd	Hindustan Unilever Ltd	N/A	Undisclosed
9-Aug-05	Functionalised biopolymer business	Riddhi Siddhi Gluco Biols Ltd	Hindustan Unilever Ltd	N/A	Undisclosed
7-Sep-06	Capgemini Business Services India Ltd	Cap Gemini SA	Hindustan Unilever Ltd	N/A	Undisclosed
29-Mar-10	Capgemini Business Services India Ltd	Cap Gemini SA	Hindustan Unilever Ltd	N/A	Undisclosed
27-Jul-10	Hindustan Field Services Pvt Ltd	Smollan Holdings Proprietary Ltd	Hindustan Unilever Ltd	N/A	Undisclosed

Source: PINC Research, Bloomberg

Year Ended March (Figures in Rs mn)

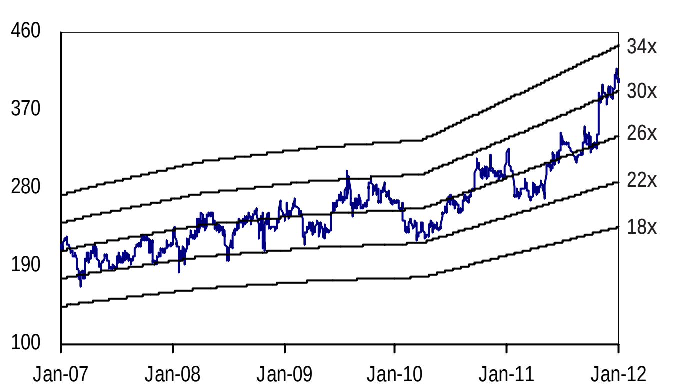
Income Statement	FY10	FY11	FY12E	FY13E	FY14E
Gross Sales	183,678	204,701	236,575	269,014	307,138
Net sales	180,256	200,185	229,960	261,492	298,550
Growth (%)	*8.3*	*11.1*	*14.9*	*13.7*	*14.2*
EBITDA	28,374	27,045	32,676	37,980	43,996
Growth (%)	*18.8*	*(4.7)*	*20.8*	*16.2*	*15.8*
Depreciation	1,919	2,293	2,372	2,552	2,612
Other Income	827	2,618	3,043	3,203	3,523
EBIT	27,281	27,370	33,346	38,630	44,906
Interest Paid	75	10	2	2	2
PBT (before E/o items)	27,206	27,360	33,345	38,628	44,905
Tax Provision	6,153	5,919	8,003	9,271	10,777
Minority Interest	80	106	116	128	141
E/o income/(loss)	594	1,624	-	-	-
Reported PAT	21,568	22,960	25,225	29,229	33,987
Adjusted PAT	20,974	21,336	25,225	29,229	33,987
Growth (%)	*5.3*	*1.7*	*18.2*	*15.9*	*16.3*
Diluted EPS (Rs)	9.6	9.9	11.7	13.5	15.7
Diluted EPS Growth (%)	*5.2*	*2.8*	*18.2*	*15.9*	*16.3*

Cash Flow Statement	FY10	FY11	FY12E	FY13E	FY14E
Pre-tax profit	27,205	27,360	33,345	38,628	44,905
Depreciation	1,919	2,293	2,372	2,552	2,612
Total Tax Paid	(6,735)	(6,710)	(7,808)	(9,076)	(10,582)
Chg in working capital	14,627	(1,521)	(78)	2,967	2,674
Other operating activities	(2,220)	(2,320)	2	2	2
Cash flow from oper (a)	34,797	19,102	27,833	35,074	39,610
Capital Expenditure	(5,520)	(3,106)	(2,000)	(2,000)	(2,000)
Chg in investments	(9,218)	848	-	-	-
Other investing activities	3,303	3,834	-	-	-
Cash flow from inv.(b)	(11,436)	1,576	(2,000)	(2,000)	(2,000)
Free cash flow (a+b)	23,361	20,677	25,833	33,074	37,610
Equity raised/(repaid)	-	-	-	-	-
Debt raised/(repaid)	(4,233)	(82)	-	-	1
Interest paid	(75)	(10)	(2)	(2)	(2)
Dividend (incl. Tax)	(15,284)	(14,264)	(16,196)	(19,436)	(23,755)
Other financing activities	(2,360)	(8,585)	(2,674)	(3,208)	(3,921)
Cash flow from fin. (c)	(21,952)	(22,940)	(18,872)	(22,646)	(27,676)
Net chg in cash (a+b+c)	1,409	(2,263)	6,961	10,428	9,934

Balance Sheet	FY10	FY11	FY12E	FY13E	FY14E
Equity Share Capital	2,182	2,160	2,160	2,160	2,160
Reserves & surplus	24,507	24,934	31,291	37,878	44,191
Shareholders' funds	26,689	27,094	33,450	40,037	46,350
Minorities interests	105	146	262	390	531
Total Debt	108	27	27	27	27
Capital Employed	26,902	27,266	33,739	40,454	46,908
Net fixed assets	24,943	25,231	24,859	24,306	23,694
Cash & Cash Eq.	20,124	17,873	24,835	35,265	45,201
Net Other current assets	(32,891)	(29,793)	(29,715)	(32,682)	(35,355)
Investments	12,245	11,885	11,885	11,885	11,885
Net Deferred tax Assets	2,482	2,070	1,875	1,680	1,485
Total Assets	26,903	27,266	33,739	40,454	46,909

Key Ratios	FY10	FY11	FY12E	FY13E	FY14E
OPM (%)	15.7	13.5	14.2	14.5	14.7
Net Margin (%)	11.6	10.7	11.0	11.2	11.4
Div. Yield (%)	1.6	1.6	1.9	2.3	2.8
Net debt/Equity (x)	(0.7)	(0.7)	(0.7)	(0.9)	(1.0)
Net Working Capital (days)	(66.6)	(54.3)	(47.2)	(45.6)	(43.2)
ROCE (%)	105.5	99.2	96.8	93.9	93.8
RoE (%)	78.6	78.7	75.4	73.0	73.3
EV/Net Sales (x)	4.6	4.1	3.6	3.1	2.7
EV/EBITDA (x)	29.4	30.6	25.1	21.3	18.2
PER (x)	41.3	40.2	34.0	29.3	25.2
PCE (x)	37.8	36.3	31.1	27.0	23.4
Price/Book (x)	32.5	31.6	25.6	21.4	18.5

1-Year forward P/E Band



Key Assumptions

	FY10	FY11	FY12E	FY13E	FY14E
Soaps Sales Gr. (%)	8.3%	5.7%	15.6%	12.8%	13.3%
Detergents Sales Gr. (%)	-0.4%	6.4%	14.5%	12.5%	13.5%
Personal Care Sales Gr. (%)	13.7%	16.0%	15.1%	16.0%	16.4%
Beverages Sales Gr. (%)	16.7%	9.4%	12.8%	11.5%	11.5%
Food Sales Gr. (%)	12.7%	23.5%	20.4%	17.7%	17.8%
EBITDA Change (bps)	139.5	(223.1)	69.9	31.5	21.2
Effective tax rate (%)	23%	22%	24%	24%	24%

COMPANY UPDATE

Company Update
Sector: FMCG
BSE Sensex: 15,868

NESTLE INDIA

Maintain	SELL
CMP	Rs4,143
TP	Rs3,618

09 January 2012

Naveen Trivedi **+91-22-6618 6384**
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Slower volume growth, Valuations expensive

Nestle India (Nestle) underperformed BSE FMCG by 7% but its valuations are still very expensive. Nestle's 9MCY09 performance was in line with our expectation and 21% top line growth was lower at 18% in net earnings. Rising competition along with sharp price hike on all the key brands resulted into volume growth of 9% during 9MCY11 which was slowest in past 5 years.

We believe going forward Nestle would have to focus more on volume growth as the company is in the capacity expansion mode. Higher marketing efforts would be required for retaining volume leadership which would pressure on profitability. We expect 23% and 20% net sales and net earnings CAGR during CY10-13E.

We maintain our SELL rating on the stock with revise TP of Rs3,618.

Slower volume across all the categories

Nestle reported 9% volume growth during 9MCY11 which is the slowest growth in the past 5 years. Milk Product & Nutrition, Prepared Dishes and Chocolates registered slower volume growth of 4%, 15% and 1% respectively during 9MCY11. Rise in competition and sharp price hike on all the key brands were the key reason for slower volume growth performance.

Profitability intake despite high RM inflation

Despite facing high RM inflation, Nestle protected EBITDA margin during 9MCY09. We expect limited scope of further price hike along with higher A&P spending to protect volume market share would lower down the EBITDA margin by 90bps during CY10-13E.

VALUATIONS AND RECOMMENDATION

Nestle's monopoly in Maggi noodles would be difficult to maintain for long time post the entrance of big players. Competition is rising in almost all the categories while Nestle is expanding capacities which would force the company to maintain volume market share. Therefore, we expect pressure on pricing power of key brands. Nestle trades at a ~31% premium to the FMCG sector and we argue that this premium would narrow. We peg 30x P/E multiple on 12-months forward earnings and revise our TP to Rs3,618 (Rs3,578 earlier). We maintain 'SELL' rating on the stock.

KEY FINANCIALS (Rs mn)

	CY09	CY10	CY11E	CY12E	CY13E
Net Sales	51,395	62,609	76,556	94,350	117,129
YoY Gr. (%)	*18.8*	*21.8*	*22.3*	*23.2*	*24.1*
Op. Profits	10,448	12,559	15,122	18,419	22,431
OPM (%)	*20.3*	*20.1*	*19.8*	*19.5*	*19.2*
Adj. Net Profit	6,575	8,188	9,648	11,405	14,102
YoY Gr. (%)	*21.7*	*24.5*	*17.8*	*18.2*	*23.7*
KEY RATIOS					
Dil EPS (Rs)	68.2	84.9	100.1	118.3	146.3
ROCE (%)	179.7	146.8	88.9	81.4	81.0
RONW (%)	113.1	95.7	80.3	70.8	66.6
P/E (x)	60.8	48.8	41.4	35.0	28.3
EV/Sales (x)	7.7	6.3	5.2	4.3	3.4
EV/EBITDA (x)	37.9	31.5	26.5	21.9	17.8

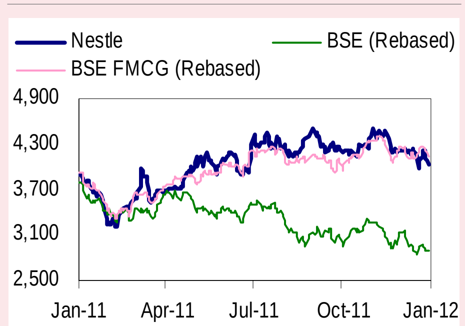
STOCK DATA

Market cap	Rs399bn
Book Value per share	Rs89
Shares O/S (F.V. Rs10)	96mn
Free Float	37%
Avg. Trade Value (6 months)	Rs112mn
52 week High/Low	Rs4,549/3,160
Bloomberg Code	NEST IN
Reuters Code	NEST.BO

PERFORMANCE (%)

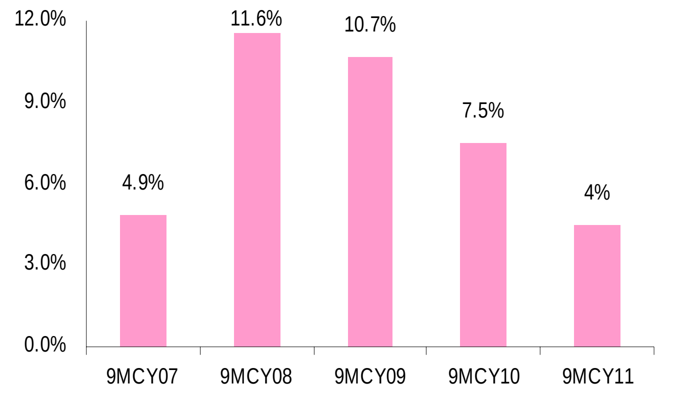
	1M	3M	12M
Absolute	(2.9)	(2.3)	5.3
Relative	2.6	(2.7)	35.5

RELATIVE PERFORMANCE



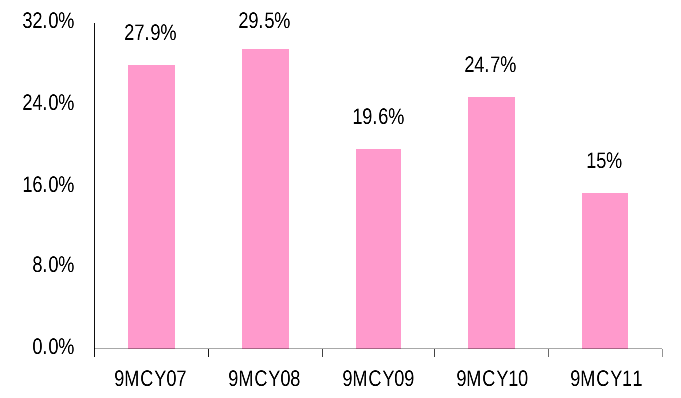
Slower volume growth performance across all the categories…

Exhibit 1 - Volume growth of Milk Product & Nutrition



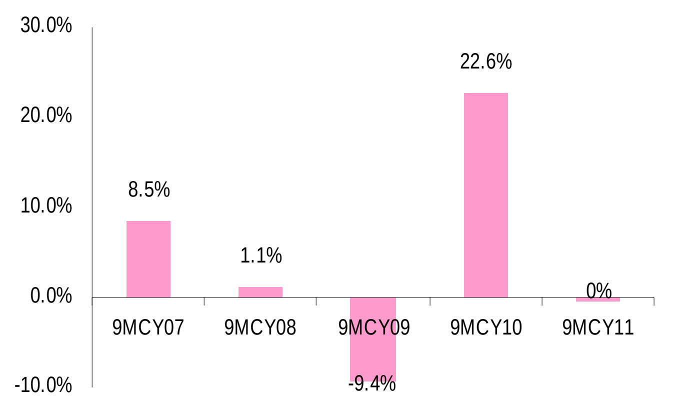
Source: PINC Research, Company

Exhibit 2 - Volume growth of Prepared Dishes



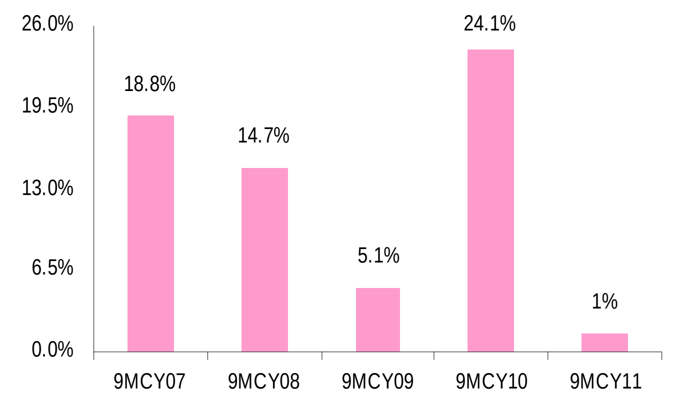
Source: PINC Research, Company

Exhibit 3 - Volume growth of Beverages



Source: PINC Research, Company

Exhibit 4 - Volume growth of Chocolates & Confect.



Source: PINC Research, Company

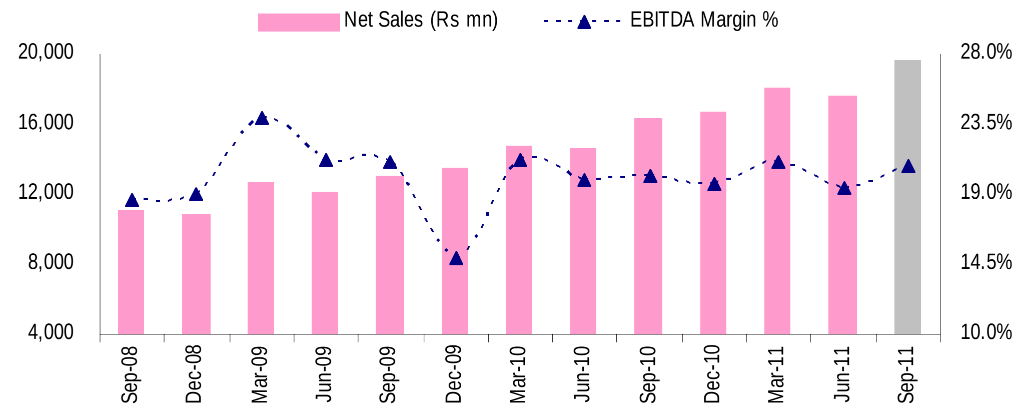
Exhibit 5 - 9MCY11 Earnings Summary (Rs mn)

Particulars (Rs mn)	Sep-10	Sep-11	YoY Gr%	Jun-11	QoQ Gr%	9MCY10	9MCY11	YoY Gr%	PINC Comments
Net Sales	16,372	19,631	19.9	17,631	11.3	45,837	55,361	20.8	Mix of volume and price growth
Other Operating Income	41	62	50.5	50	23.2	143	156		
Total Income	16,413	19,693	20.0	17,681	11.4	45,980	55,517	20.7	
Raw Material Consumed	7,283	8,224		8,539		22,499	25,859		
Stock Adjustment	471	892		(76)		(629)	337		
Purchase of Finished Goods	278	338		255		729	817		
Total RM cost	8,032	9,454	17.7	8,718	8.4	22,599	27,013	19.5	
Gross Profit	8,381	10,239	22.2	8,962	14.2	23,382	28,504	21.9	
Gross margin (%)	51.1%	52.0%	93bps	50.7%	130bps	50.9%	51.3%	49bps	Gross margin expansion was on improvement in product/channel mix
Employee Expenses	1,041	1,424	36.8	1,375	3.5	3,155	4,004	26.9	Commissioning of Maggi plant in Nanjangud has led to rise in staff cost
Other Expenses	4,079	4,650	14.0	4,092	13.6	10,884	12,943	18.9	Largely on higher A&P spending
Total Expenditures	13,106	15,590	19.0	14,244	9.4	36,610	44,149	20.6	
EBITDA	3,307	4,103	24.1	3,437	19.4	9,370	11,368	21.3	
EBITDA Margin %	20.1%	20.8%	69bps	19.4%	140bps	20.4%	20.5%	10bps	
Other Income	54	59	9.3	30	98.7	144	172	19.1	Low cash for investments as the Nestle is in the high capex mode
Interest	1	12	2,200.0	6	98.3	10	17	78.4	
Depreciation	305	385	26.2	367	5.0	919	1,079	17.4	Higher depreciation was on commissioning of Nanjangud plant
PBT	3,056	3,754	22.8	3,094	21.3	8,586	10,432	21.5	
Total Tax	840	1,134	35.0	956	18.6	2,404	3,116	29.6	
Effective tax (%)	27%	30%	271bps	31%	-70bps	28%	30%	188bps	100% tax benefits as Pantnagar facility has reduced to 30%
Reported PAT	2,216	2,620	18.3	2,138	22.5	6,182	7,316	18.3	
EPS (Adjusted)	23.0	27.2	18.3	22.2	22.5	64.1	75.9	18.3	

Source: PINC Research, Company

Exhibit 6 - Net Sales (Rs mn) and EBITDA Margin (%) Trajectory

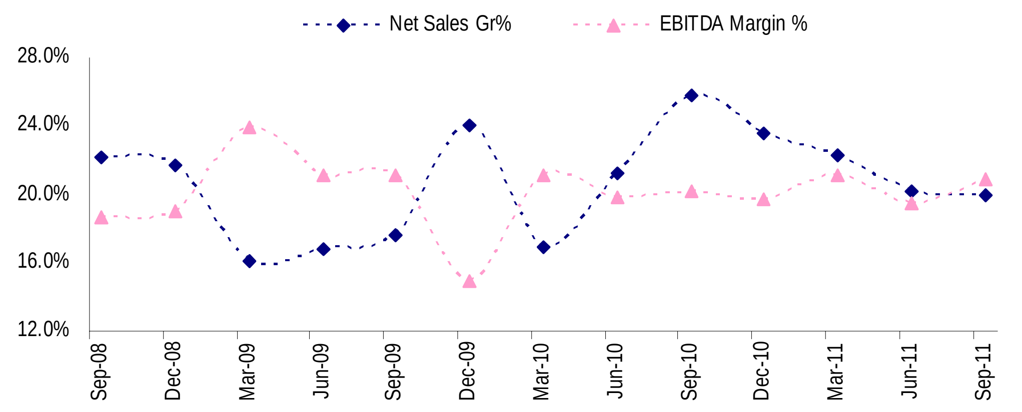
Higher gross level profitability and slower other expenses led to EBITDA margin expansion…



Source: Company, PINC Research

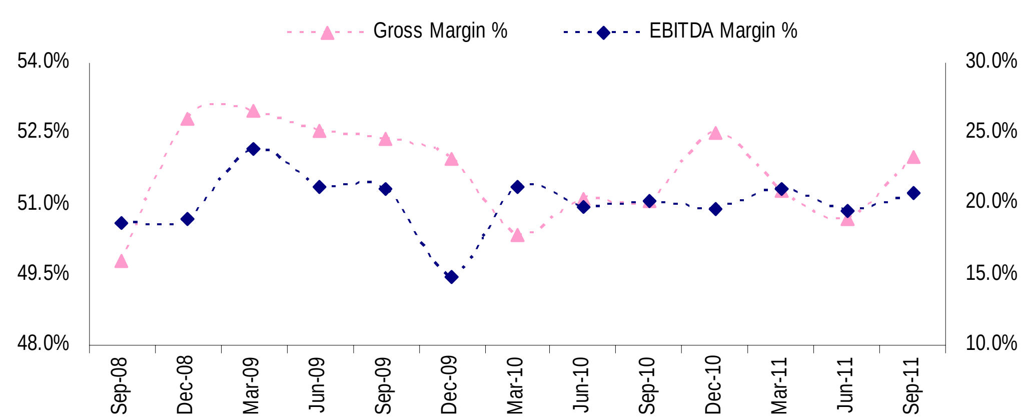
Exhibit 7 - Net Sales Gr% and EBITDA Margin (%) Relationship

Generally inverse relationship…



Source: Company, PINC Research

Exhibit 8 - Gross and EBITDA Margin (%)



Source: Company, PINC Research

Nestle India

Year Ended December (Figures in Rs mn)

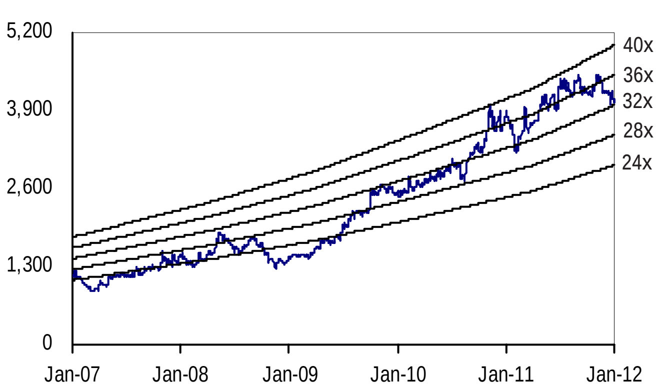
Income Statement	CY09	CY10	CY11E	CY12E	CY13E
Gross Sales	52,224	63,766	77,957	96,077	119,274
Growth (%)	*16.8*	*22.1*	*22.3*	*23.2*	*24.1*
Net sales	51,395	62,609	76,556	94,350	117,129
Growth (%)	*18.8*	*21.8*	*22.3*	*23.2*	*24.1*
EBITDA	10,448	12,559	15,122	18,419	22,431
Growth (%)	20.2	20.2	20.4	21.8	21.8
Depreciation	1,112	1,278	1,523	2,144	2,743
Other Income	276	365	395	374	544
EBIT	9,613	11,647	13,994	16,648	20,232
Interest Paid	14	11	125	288	325
PBT (before E/o items)	9,173	11,452	13,686	16,177	19,724
Tax Provision	2,619	3,264	4,037	4,772	5,621
E/o income/(loss)	(22)	-	-	-	-
Reported Net Profit	6,553	8,188	9,648	11,405	14,102
Adjusted Net Profit	6,575	8,188	9,648	11,405	14,102
Growth (%)	*21.7*	*24.5*	*17.8*	*18.2*	*23.7*
Diluted EPS (Rs)	68.2	84.9	100.1	118.3	146.3
Diluted EPS Growth (%)	*21.7*	*24.5*	*17.8*	*18.2*	*23.7*

Cash Flow Statement	CY09	CY10	CY11E	CY12E	CY13E
Pre-tax profit	9,170	11,451	13,686	16,177	19,724
Depreciation	1,113	1,278	1,523	2,144	2,743
Total Tax Paid	(2,692)	(3,207)	(3,912)	(4,647)	(5,496)
Chg in working capital	1,545	756	(20)	948	1,154
Other operating activities	145	90	125	288	325
Cash flow from oper (a)	9,280	10,368	11,401	14,910	18,450
Capital Expenditure	(2,554)	(4,459)	(10,000)	(10,000)	(6,000)
Chg in investments	(1,684)	526	-	-	-
Other investing activiies	-	-	-	-	-
Cash flow from inv.(b)	(4,237)	(3,933)	(10,000)	(10,000)	(6,000)
Free cash flow (a+b)	5,043	6,435	1,401	4,910	12,450
Equity raised/(repaid)	-	-	-	-	-
Debt raised/(repaid)	-	-	5,000	1,500	-
Interest paid	(14)	(11)	(125)	(288)	(325)
Dividend (incl. Tax)	(4,624)	(4,654)	(5,307)	(6,273)	(7,756)
Other financing activities	(787)	(774)	(876)	(1,036)	(1,281)
Cash flow from fin. (c)	(5,424)	(5,438)	(1,308)	(6,096)	(9,362)
Net chg in cash (a+b+c)	(381)	997	93	(1,186)	3,088

Balance Sheet	CY09	CY10	CY11E	CY12E	CY13E
Equity Share Capital	964	964	964	964	964
Reserves & surplus	4,848	7,590	11,056	15,152	20,218
Shareholders' funds	5,813	8,554	12,020	16,116	21,182
Total Debt	-	-	5,000	6,500	6,500
Capital Employed	5,813	8,554	17,020	22,616	27,682
Net fixed assets	9,758	13,616	22,094	29,950	33,207
Cash & Cash Eq.	1,555	2,553	2,646	1,460	4,548
Net Other current assets	(7,212)	(8,789)	(8,769)	(9,717)	(10,871)
Investments	2,032	1,505	1,505	1,505	1,505
Misc Exp not written off	-	-	-	-	-
Net Deferred tax Assets	(320)	(333)	(458)	(583)	(708)
Total Assets	5,813	8,554	17,020	22,616	27,682

Key Ratios	CY09	CY10	CY11E	CY12E	CY13E
OPM (%)	20.3	20.1	19.8	19.5	19.2
Net Margin (%)	12.8	13.1	12.6	12.1	12.0
Div. Yield (%)	1.2	1.2	1.4	1.7	2.0
Net debt/Equity (x)	(0.3)	(0.3)	0.2	0.3	0.1
Net Working Capital (days)	(51.2)	(51.2)	(41.8)	(37.6)	(33.9)
ROCE (%)	179.7	146.8	88.9	81.4	81.0
RoE (%)	113.1	95.7	80.3	70.8	66.6
EV/Net Sales (x)	7.7	6.3	5.2	4.3	3.4
EV/EBITDA (x)	37.9	31.5	26.5	21.9	17.8
PER (x)	60.8	48.8	41.4	35.0	28.3
PCE (x)	52.0	42.2	35.8	29.5	23.7
Price/Book (x)	68.7	46.7	33.2	24.8	18.9

P/E Band



Key Assumptions	CY09	CY10	CY11E	CY12E	CY13E
Sales Gr.%	18.8	21.8	22.3	23.2	24.1
Volume Gr.%	14.9	17.0	18.6	19.7	20.4
Gross Margin %	52.4	51.2	51.2	51.1	50.8
SG&A (% of net Sales)	16.9	17.0	17.3	17.7	18.0
EBITDA Margin %	20.3	20.1	19.8	19.5	19.2
Effective tax rate %	28.6	28.5	29.5	29.5	28.5
DPS (Rs)	48.5	48.5	58.2	69.8	83.8

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DABUR INDIA

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COMPANY UPDATE

Valuations factors near term worry

Dabur India's (Dabur) rural segment is facing slowdown which impacted its H1FY12 performance. Consolidated net sales shown robust 31% growth led by recent acquisitions (Hobi Kozmetic and Namaste Group), excluding the same, sales grew at a slower pace of 13% during H1FY12. Profitability was also subdued on account of input price pressure and higher sales contribution from low EBITDA margin acquisitions.

We expect softening of input prices along with better rural traction would improve the performance going forward. We expect net sales and net earnings to show 17% and 19% CAGR during FY11-14E. We maintain our ACCUMULATE rating with TP of Rs109.

Domestic business slowing down

Dabur's domestic business (68% of sales) displayed mere ~12% growth during H1FY12 and impacted overall performance. Hair oil and food categories were the exception and clocked strong growth of 21% and 30% during H1FY12. While skin care, health supplement, oral care and home care displayed muted growth of 7%, 4%, 9% and 10% growth respectively during H1FY12. Shampoo business could not recover due to sharp shampoo price cut by its peers and posted 24% decline in H1FY12.

International business growth sustainable

Dabur's international business (excluding recent acquisitions) displayed 18% growth in H1FY12 which was lower as compared to past three years' >25% history. GCC, Egypt and Nigeria continue to perform well and registered 27%, 27% and 36% growth during H1FY12 respectively.

EBITDA margin to be lower

We expect EBITDA margin during FY12-14E would be lower than FY10-11 as we believe higher contribution of low margin acquisitions. Hobi Kozmetic and Namaste Group fetch low profitability profile which would change the overall profitability profile of the company. We expect Hobi and Namaste would combined contribute 13% and 10% of consolidated sales and EBITDA of FY14.

VALUATIONS AND RECOMMENDATION

Dabur's strong presence in the domestic market through its robust portfolio and regular entrance in geographies enabled it to maintain its high growth momentum. We retain our 25x multiple on 12-month forward earnings and derive TP of Rs109 (earlier Rs107). We maintain our 'ACCUMULATE' rating on the stock.

KEY FINANCIALS (CONSOLIDATED) (Rs mn)

	FY10	FY11	FY12E	FY13E	FY14E
Net Sales	34,056	40,962	51,672	59,628	69,055
YoY Gr. (%)	*20.8*	*20.3*	*26.1*	*15.4*	*15.8*
Op. Profits	6,383	7,544	8,766	10,297	12,144
OPM (%)	*18.7*	*18.4*	*17.0*	*17.3*	*17.6*
Adj. Net Profit	4,904	5,688	6,507	7,935	9,560
YoY Gr. (%)	*31.6*	*16.0*	*14.4*	*21.9*	*20.5*
KEY RATIOS					
Dil EPS (Rs)	2.8	3.3	3.7	4.6	5.5
ROCE (%)	55.5	30.2	33.4	34.9	35.2
RONW (%)	52.4	40.9	35.4	32.7	30.1
P/E (x)	35.1	30.3	26.5	21.7	18.0
EV/Sales (x)	5.0	4.3	3.4	2.9	2.4
EV/EBITDA (x)	26.6	23.3	19.7	16.5	13.7

09 January 2012

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STOCK DATA

Market cap	Rs172bn
Book Value per share	Rs8
Shares O/S (F.V. Rs1)	1,741mn
Free Float	31%
Avg. Trade Value (6 months)	Rs125mn
52 week High/Low	Rs122/87
Bloomberg Code	DABUR IN
Reuters Code	DABU.BO

PERFORMANCE (%)

	1M	3M	12M
Absolute	5.8	(0.7)	(2.0)
Relative	11.8	(1.2)	26.0

RELATIVE PERFORMANCE

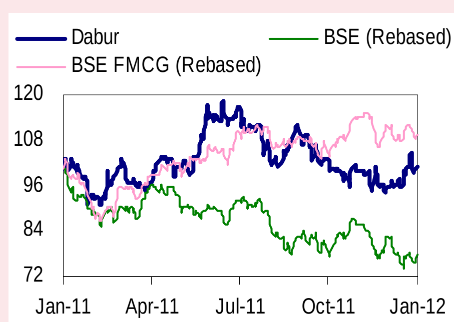


Exhibit 1 - Contribution of Hobi Kozmetic and Namaste Group

Particular (Rs mn)	FY12E	FY13E	FY14E	PINC Comments
Revenue				
Sales Ex Hobi & Namaste	44,958	51,849	60,127	
YoY Gr%	14.2%	15.3%	16.0%	
Hobi Sales (Rs mn)	1,439	1,591	1,782	Launch of products in domestic market and higher traction in MENA and Africa regions would enable it to maintain high growth momentum
YoY Gr%	7.8%	10.5%	12.0%	
Namaste (Rs mn)	5,275	6,188	7,147	Focus on Africa business would result in higher sales growth, long term plans are very strong
YoY Gr%	18.0%	17.3%	15.5%	
Total Sales	51,672	59,628	69,055	
YoY Gr%	25.7%	15.4%	15.8%	
Operating Performance				
EBITDA Ex Hobi & Namaste	7,899	9,270	10,947	
EBITDA Margin %	17.6%	17.9%	18.2%	
Hobi EBITDA	151	169	196	
EBITDA Margin %	10.5%	10.6%	11.0%	
Namaste EBITDA	717	857	1,001	
EBITDA Margin %	13.6%	13.9%	14.0%	We expect sligtht improvement in the profitability through better operatinal management
Total EBITDA	8,766	10,297	12,144	
Consolidated EBITDA Margin %	17.0%	17.3%	17.6%	
Sales contribution by Hobi and Namaste %	13.0%	13.0%	12.9%	
EBITDA contribution by Hobi and Namaste %	9.9%	10.0%	9.9%	

Source: PINC Research, Company

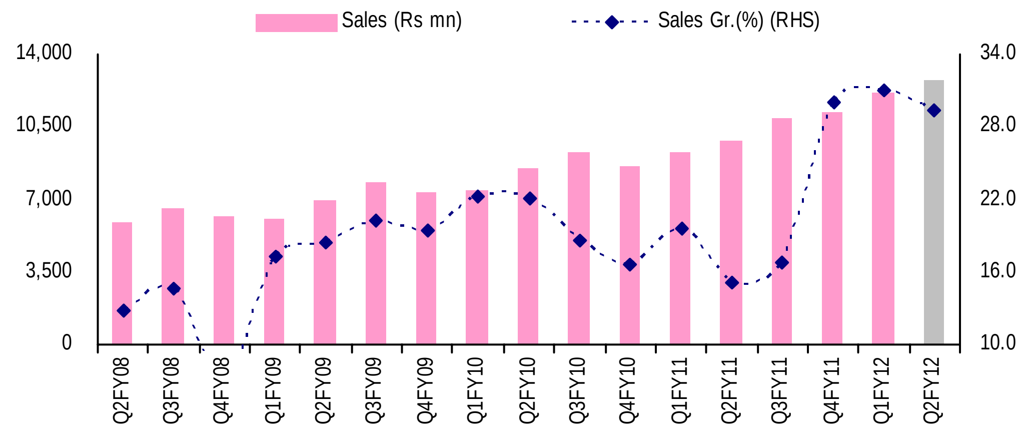
Exhibit 2 - H1FY12 Earning Summary (Rs mn)

Quarter Ended (Rs mn)	Q2FY11	Q2FY12	YoY Gr%	Q1FY12	QoQ Gr%	H1FY11	H1FY12	YoY Gr%	PINC Comments
Net Sales	9,728	12,623	29.8	12,046	4.8	18,893	24,669	30.6	Excluding sales of Hobi Kozmetic and Namaste, net sales grew by 13% during Q2FY12
YoY Gr%	14.7%	29.8%		31.4%		16.9%	30.6%		
Other Operating Income	101	84	(17.0)	80	4.9	187	163	(12.7)	
Total Income	9,828	12,707	29.3	12,125	4.8	19,079	24,832	30.2	
YoY Gr%	15.1%	29.3%		31.1%		17.3%	30.2%		
Total RM	4,585	6,309	37.6	6,290	0.3	8,931	12,599	41.1	Input price pressure continued during both the quarters
YoY Gr%	20.1%	37.6%		44.7%		20.0%	41.1%		
Gross Profit	5,244	6,398	22.0	5,836	9.6	10,148	12,233	20.5	
YoY Gr%	11.0%	22.0%		19.0%		14.9%	20.5%		
Gross Margin (%)	53.4%	50.3%	-300bps	48.1%	222bps	53.2%	49.3%	-393bps	RM growth was higher than our expectation and resulted in gross margin decline
YoY Expansion (bps)	-195bps	-300bps		-489bps		-108bps	-393bps		
Employee Expenses	779	1,014	30.3	951	6.6	1,506	1,965	30.5	Maintained at ~8% of sales
YoY Gr%	7.8%	30.3%		30.7%		10.9%	30.5%		
% of sales	7.9%	8.0%	6bps	7.8%	14bps	7.9%	7.9%	2bps	
Expansion (bps)	-54bps	6bps		-2bps		-46bps	2bps		
Advertisment and publicity	1,215	1,278	5.1	1,515	(15.7)	2,722	2,792	2.6	A substantial cut down in SG&A was to protect the profitability
YoY Gr%	1.1%	5.1%		0.5%		12.1%	2.6%		
% of sales	12.4%	10.1%	-231bps	12.5%	-244bps	14.3%	11.2%	-302bps	
Expansion (bps)	-170bps	-231bps		-380bps		-65bps	-302bps		
Provisions & Write Offs	47	42	(10.8)	57	(25.7)	57	99	73.0	
YoY Gr%	230.1%	-10.8%		472.7%		108.4%	73.0%		
% of sales	0.5%	0.3%	-15bps	0.5%	-14bps	0.3%	0.4%	10bps	
Other Expenses	1,121	1,657	47.8	1,583	4.7	2,337	3,239	38.6	Were stable at 13% of sales
YoY Gr%	13.9%	47.8%		30.1%		15.6%	38.6%		
% of sales	11.4%	13.0%	163bps	13.1%	-1bps	12.2%	13.0%	79bps	
Expansion (bps)	-12bps	163bps		-10bps		-17bps	79bps		
Total Expenditures	7,747	10,300	33.0	10,395	(0.9)	15,554	20,695	33.1	
EBITDA	2,082	2,407	15.6	1,731	39.1	3,526	4,138	17.4	
YoY Gr%	15.6%	15.6%		19.9%		17.7%	17.4%		
EBITDA Margin %	21.2%	18.9%	-224bps	14.3%	467bps	18.5%	16.7%	-182bps	EBITDA margin were better than our expectation
YoY Expansion (bps)	9bps	-224bps		-133bps		7bps	-182bps		
Other Income	67	106	58.1	151	(30.2)	102	257	150.9	
Depreciation	142	175	23.0	154	13.8	277	329	18.7	Acquisition impact
EBIT	2,006	2,338	16.5	1,728	35.3	3,351	4,066	21.3	
YoY Gr%	14.7%	16.5%		28.5%		17.2%	21.3%		
EBIT Margin %	20.4%	18.4%	-202bps	14.3%	415bps	17.6%	16.4%	-119bps	
Interest	46	172	274.7	126	36.2	54	298	455.5	Large debt in books to acquire Hobi and Namaste
PBT	1,960	2,166	10.5	1,602	35.2	3,297	3,767	14.3	
Total Tax	356	427	20.0	323	32.4	619	750	21.1	
Effective tax rate %	18.2%	19.7%	156bps	20.1%	-41bps	18.8%	19.9%	113bps	Met the year guidance
Reported PAT	1,604	1,739	8.4	1,279	35.9	2,671	3,018	13.0	
YoY Gr%	15.4%	8.4%		19.8%		16.9%	13.0%		
Diluted EPS (Adjusted)	0.92	1.00	8.4	0.73	35.9	1.53	1.73	13.0	
YoY Gr%	14.8%	8.4%		19.8%		16.3%	13.0%		

Source: PINC Research, Company

Dabur has consistently improved the size through organic and inorganic route…

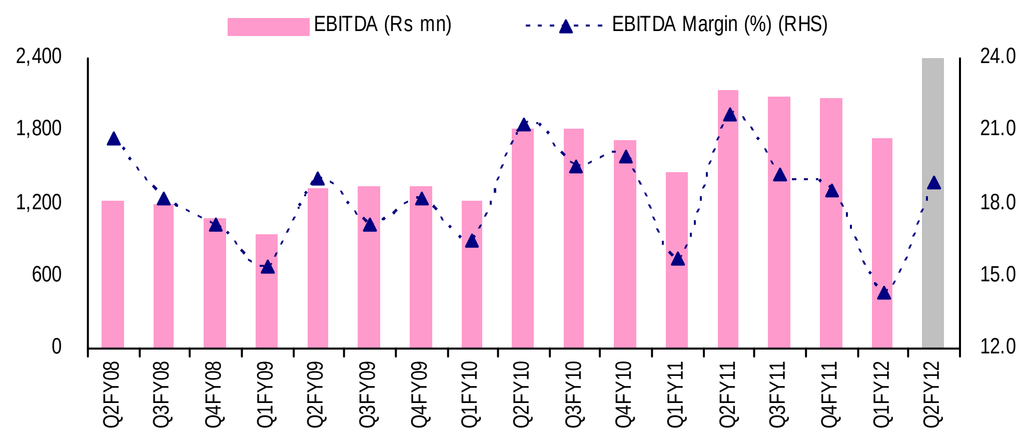
Exhibit 3 - Quarterly Sales and Sales Growth



Source: Company, PINC Research

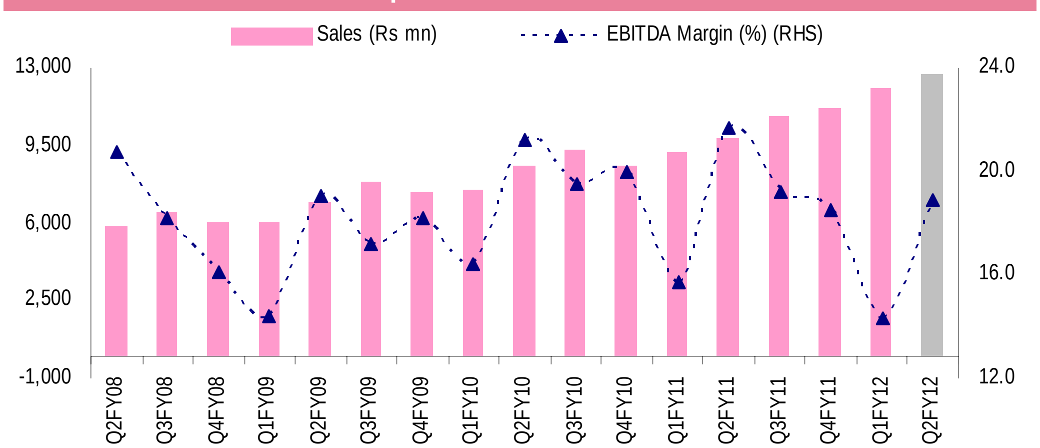
Lowest EBITDA margin in past 20 quarters…

Exhibit 4 - EBITDA and EBITDA Margin



Source: Company, PINC Research

Exhibit 5 - Sales and EBITDA performance



Source: Company, PINC Research

Year Ended March (Figures in Rs mn)

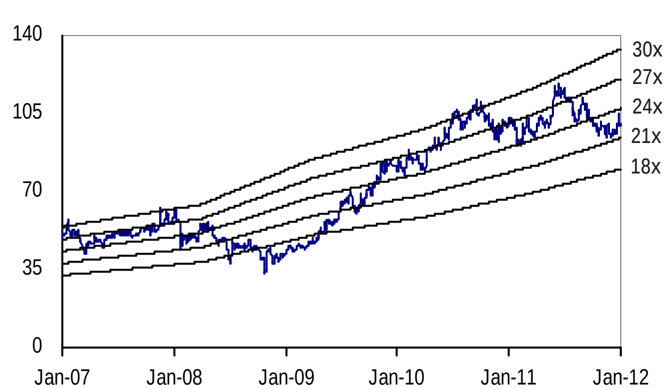
Income Statement	FY10	FY11	FY12E	FY13E	FY14E
Net Sales	33,914	40,774	51,415	59,331	68,712
Growth (%)	*20.9*	*20.2*	*26.1*	*15.4*	*15.8*
Other operating income	142	187	257	297	344
Total Revenue	34,056	40,962	51,672	59,628	69,055
YoY Gr%	*20.8*	*20.3*	*26.1*	*15.4*	*15.8*
EBITDA	6,383	7,544	8,766	10,297	12,144
YoY Gr%	*32.9*	*18.2*	*16.2*	*17.5*	*17.9*
Other Income	331	465	611	725	800
Depreciation	503	624	719	817	916
Interest	202	303	521	281	73
PBT	6,009	7,081	8,138	9,923	11,954
Total tax	1,005	1,390	1,628	1,985	2,391
Minority Interest	(8)	3	3	3	3
Reported PAT	5,013	5,688	6,507	7,935	9,560
Adjusted PAT	4,904	5,688	6,507	7,935	9,560
YoY Gr%	*31.6*	*16.0*	*14.4*	*21.9*	*20.5*
Diluted EPS	2.8	3.3	3.7	4.6	5.5
YoY Gr%	*31.6*	*16.0*	*14.4*	*21.9*	*20.5*

Cash Flow Statement	FY10	FY11	FY12E	FY13E	FY14E
Pre-tax profit	6,009	7,079	8,138	9,923	11,954
Depreciation	503	624	719	817	916
Total tax paid	(1,045)	(1,250)	(1,628)	(1,985)	(2,391)
Chg in working capital	(394)	(1,346)	(485)	(2,461)	(2,713)
Other operating activities	(84)	(96)	-	-	-
Cash flow from oper. (a)	4,989	5,011	6,744	6,295	7,767
Capital expenditure	(1,340)	(9,260)	(1,850)	(1,850)	(1,850)
Chg in investments	(1,041)	(1,538)	-	-	-
Other investing activities	79	158	-	-	-
Cash flow from inv. (b)	(2,302)	(10,640)	(1,850)	(1,850)	(1,850)
Free cash flow (a+b)	2,687	(5,628)	4,894	4,445	5,917
Equity raised/(repaid)	3	1	0	0	(0)
Debt raised/(repaid)	(556)	8,705	(3,000)	(2,600)	(2,600)
Chg in Minorities int.	-	-	-	-	-
Dividend (incl. tax)	(1,520)	(1,952)	(2,037)	(2,037)	(2,037)
Other financing activities	(257)	(325)	-	-	-
Cash flow from fin. (c)	(2,331)	6,430	(5,037)	(4,637)	(4,637)
Net chg in cash (a+b+c)	357	801	(142)	(192)	1,280

Balance Sheet	FY10	FY11	FY12E	FY13E	FY14E
Equity capital	869	1,741	1,741	1,741	1,741
Reserves & surplus	8,485	12,170	16,641	22,540	30,063
Shareholders' funds	9,354	13,911	18,382	24,280	31,804
Minorities interests	38	41	44	47	50
Total Debt	1,793	10,510	7,510	4,910	2,310
Capital Employed	11,185	24,462	25,936	29,238	34,165
Net fixed assets	6,767	15,417	16,548	17,581	18,515
Cash & Cash Eq.	1,923	2,720	2,759	2,567	3,847
Net other Current Assets	(68)	1,230	1,715	4,176	6,889
Investments	2,641	4,274	4,274	4,274	4,274
Net Deferred Tax Assets	(107)	(190)	(190)	(190)	(190)
Total assets	11,185	24,462	25,936	29,238	34,165

Key Ratios	FY10	FY11	FY12E	FY13E	FY14E
OPM (%)	18.7	18.4	17.0	17.3	17.6
Net margin (%)	14.4	13.9	12.6	13.3	13.8
Dividend yield (%)	1.0	1.0	1.0	1.0	1.0
Net debt/Equity (x)	(0.0)	0.6	0.3	0.1	(0.0)
Net Working Capital (days)	(0.7)	11.0	12.2	25.7	36.6
ROCE (%)	55.5	30.2	33.4	34.9	35.2
RoE (%)	52.4	40.9	35.4	32.7	30.1
EV/Net sales (x)	5.0	4.3	3.4	2.9	2.4
EV/EBITDA (x)	26.6	23.3	19.7	16.5	13.7
PER (x)	35.1	30.3	26.5	21.7	18.0
PCE (x)	31.9	27.3	23.8	19.7	16.4
Price/Book (x)	18.4	12.4	9.4	7.1	5.4

P/E Band



Key Assumptions	FY11	FY12E	FY13E	FY14E
Sales Gr%	20.3	26.0	15.6	15.8
Gross Margin %	53.5	50.4	52.2	52.8
Packing cost (% of net sales)	16.4	16.8	16.5	16.1
EBITDA margin expansion (bps)	-33bps	-153bps	38bps	32bps
Effective tax rate (%)	19.6	20.0	20.0	20.0

Company Update
Sector: FMCG
BSE Sensex: 15,868

COLGATE-PALMOLIVE (INDIA)

Upgrade	REDUCE
CMP	Rs981
TP	Rs937

COMPANY UPDATE

09 January 2012

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Towards market share gain

Colgate's H1FY12 performance was a mixed bag as sales growth was better than our expectation while profitability was under pressure. Colgate maintained volume growth at ~12.5% during H1FY12 although it took price hike on most of the brands. Average price growth in H1FY12 was ~5% v/s flat growth in H1FY11 and 2.5% growth in H1FY10. Colgate's A&P spending was higher than our expectation and that impacted the H1FY12 performance. We believe higher A&P spending was to gain the market share as most of the players cut down A&P expense to protect their profitability.

We believe oral care industry is set for premiumisation and better realisation growth is expected in FY13 and FY14. However, to maintain the healthy volume growth, we expect Colgate's A&P spending would continue to be high in FY13 and FY14. We increase our target multiple from 24x to 25x on 12-month forward earnings as Colgate's aggressive marketing efforts would further strengthen its position in the oral care industry. We raise our TP to Rs937 (earlier Rs878) and upgrade our recommendation to 'REDUCE' from 'SELL'.

Oral care market is set for premiumisation

In our sector thesis we mentioned that oral care is one of the personal categories which also has low weightage in the monthly household budget therefore its price sensitivity is low. We also witnessed this thesis in Colgate's H1FY12 performance in which volume growth was maintained despite taking price hike on most of the brands. We expect better price growth in FY13 and FY14.

High A&P spend

Colgate is the only company in FMCG space increase in A&P spent in H1FY12 while most of the other players were protecting profitability through lower A&P spends. Colgate's aggression was to expand its market share as well as to promote sensitive oral care segment. We believe Colgate would continue to spend high on A&P in FY13 and FY14 to maintain its double digit volume growth.

VALUATIONS AND RECOMMENDATION

We expect volume growth to sustain owing to Colgate's regular product launches, higher rural focus and continued dental awareness programmes. We increase our target multiple from 24x to 25x on 12-month forward earnings and arrive at a TP of Rs937 (earlier Rs878). We upgrade our recommendation to 'REDUCE' from 'SELL'.

KEY FINANCIALS (Rs mn)

	FY10	FY11	FY12E	FY13E	FY14E
Net Sales	20,173	22,847	26,739	31,276	36,130
YoY Gr. (%)	*15.4*	*13.3*	*17.0*	*17.0*	*15.5*
Op. Profits	4,803	5,148	5,857	7,049	8,188
OPM (%)	*23.8*	*22.5*	*21.9*	*22.5*	*22.7*
Adj. Net Profit	4,039	4,026	4,449	5,244	6,072
YoY Gr. (%)	*38.3*	*(0.3)*	*10.5*	*17.9*	*15.8*
KEY RATIOS					
Dil EPS (Rs)	29.7	29.6	32.7	38.6	44.7
ROCE (%)	145.2	134.0	135.8	138.2	131.2
RONW (%)	123.8	104.8	103.2	102.8	97.3
P/E (x)	33.0	33.1	30.0	25.4	22.0
EV/Sales (x)	6.4	5.6	4.8	4.0	3.5
EV/EBITDA (x)	27.0	25.1	21.8	18.0	15.2

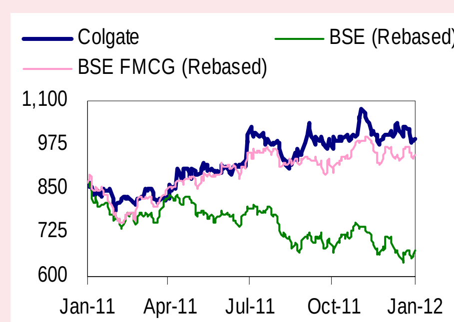
STOCK DATA

Market cap	Rs133bn
Book Value per share	Rs24
Shares O/S (F.V. Rs1)	136mn
Free Float	49.0%
Avg. Trade Value (6 months)	Rs79mn
52 week High/Low	Rs1,084/783
Bloomberg Code	CLGT IN
Reuters Code	COLG.BO

PERFORMANCE (%)

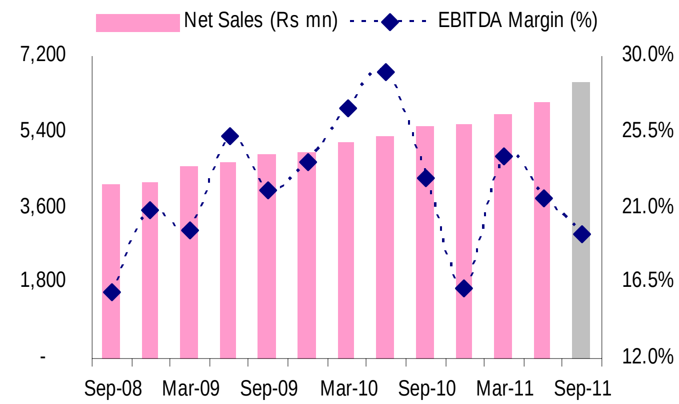
	1M	3M	12M
Absolute	(1.0)	0.6	13.9
Relative	4.7	0.2	46.5

RELATIVE PERFORMANCE



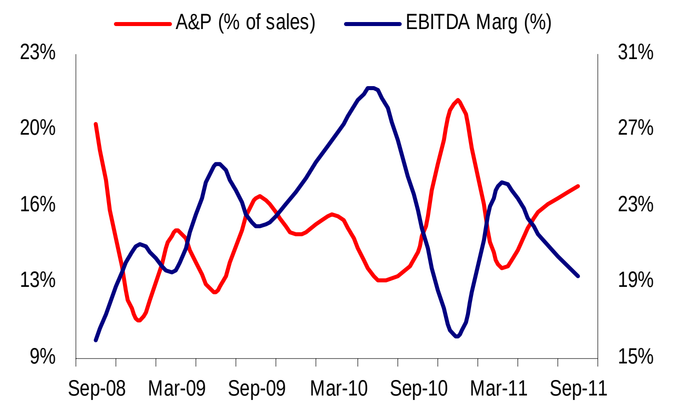
- Sales growth was healthy in H1FY12 while EBITDA margin was under pressure on higher RM cost and A&P spending.
- Colgate's A&P spending is higher than peers therefore we witnessed high volatility in quarterly EBITDA margin with the change in A&P spends.

Exhibit 1 - Net Sales (Rs mn) and EBITDA Margin (%)



Source: PINC Research, Company

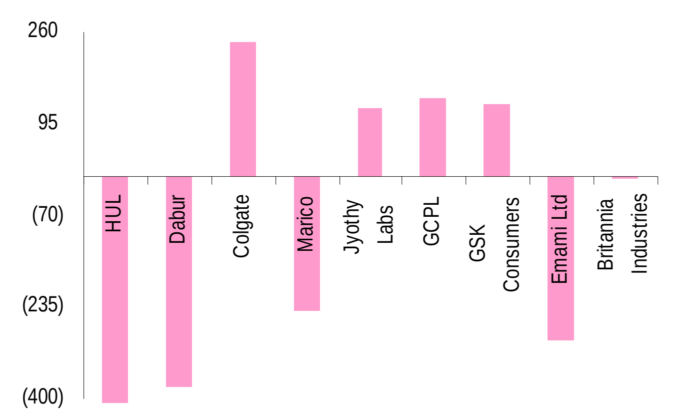
Exhibit 2 - A&P Spend and EBITDA Margin



Source: PINC Research, Company

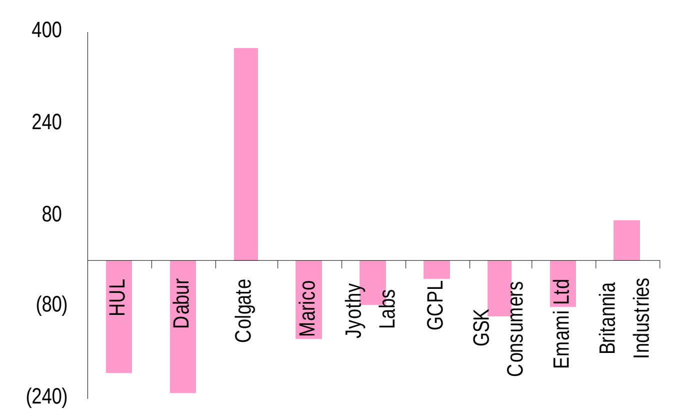
- Higher A&P spending was to gain the market share as most of the players cut down A&P expense to protect their profitability.

Exhibit 3 - Change in A&P Spending in Q1FY12



Source: PINC Research, Company

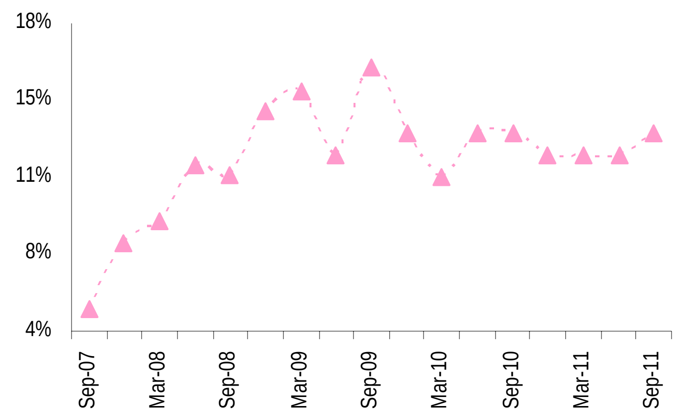
Exhibit 4 - Change in A&P Spending in Q2FY12



Source: PINC Research, Company

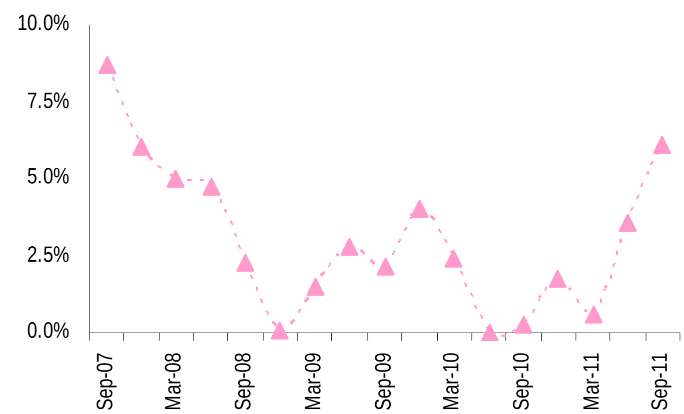
- Colgate maintained healthy volume growth in H1FY12 although it took price hike on most of the brands.

Exhibit 5 - Volume Growth (%)



Source: PINC Research, Company

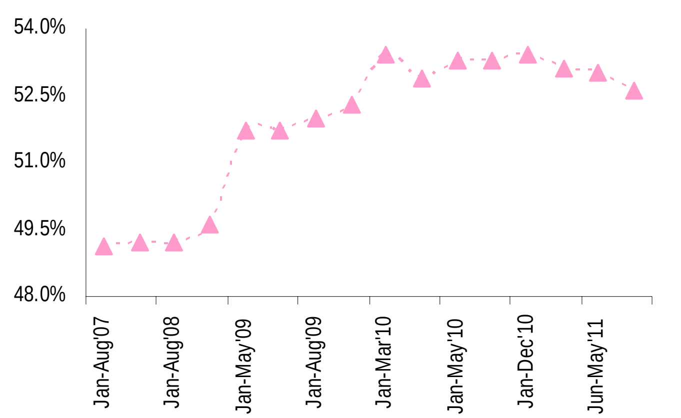
Exhibit 6 - Realisation Growth (%)



Source: PINC Research, Company

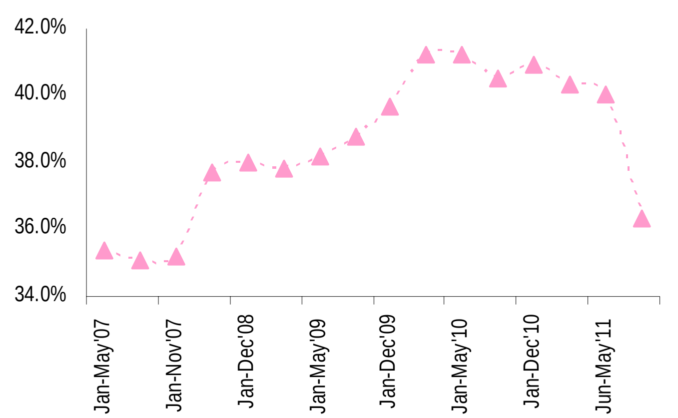
- Regular product launches couple with aggressive field level marketing has resulted into consistent improvement in volume market share.
- Colgate reported sharp decline in toothbrush market share Q2FY12.

Exhibit 7 - Toothpaste Volume Market Share



Source: PINC Research, Company

Exhibit 8 - Toothbrush Volume Market Share



Source: PINC Research, Company

Exhibit 9 - Toothpaste MRPs

Brands	Unit	Qty	MRP	MRP/unit
Colgate Sensitive Pro Relief	gm	80	120	1.50
Colgate Sensitive Original	gm	80	80	1.00
Colgate Total	gm	150	82	0.55
Colgate Max White	gm	150	65	0.43
Colgate Max Fresh	gm	150	62	0.41
Colgate Active Salt	gm	100	35	0.35
Colgate Dental Cream	gm	200	62	0.31
Colgate Herbal	gm	200	58	0.29
Colgate Cibaca	gm	200	35	0.18

Source: PINC Research, Retail Market Dec'2011

Exhibit 10 - H1FY12 Earning Summary (Rs mn)

Quarter Ended (Rs in Mn.)	Sep-10	Sep-11	YoY Gr %	Jun-11	QoQ Gr%	H1FY11	H1FY12	YoY Gr %	PINC Comments
Net Sales	5,518	6,572	19.1	6,111	7.6	10,806	12,683	17.4	On the back of ~13% volume and 6% price growth
Operating income	175	183	4.5	183	0.2	384	366	(4.8)	
Total Revenue	5,693	6,755	18.7	6,294	7.3	11,190	13,049	16.6	
Expenditures									
RM cost	2,201	2,637	19.8	2,467	6.9	4,168	5,103	22.4	
Gross Profit	3,491	4,119	18.0	3,827	7.6	7,022	7,946	13.2	
Gross Profit Margin (%)	*61.3%*	*61.0%*	*-36bps*	*60.8%*	*16bps*	*62.8%*	*60.9%*	*-186bps*	
Employees Cost	533	605	13.5	498	21.5	977	1,104	12.9	Also includes VRS cost of Rs82mn
A&P expense	789	1,143	44.8	988	15.7	1,483	2,131	43.7	Launch of new products along with focus on premium products required higher spending on branding
Other Expenditure	872	1,063	21.8	985	7.8	1,667	2,048	22.8	
EBITDA	1,297	1,308	0.9	1,356	(3.5)	2,895	2,664	(8.0)	
EBITDA Margin (%)	*22.8%*	*19.4%*	*-341bps*	*21.5%*	*-218bps*	*25.9%*	*20.4%*	*-546bps*	
Adjusted EBITDA	1,297	1,390	7.2	1,356	2.6	2,895	2,664	(8.0)	Excluding one time VRS cost of Rs82mn
Adj. EBITDA Margin (%)	*22.8%*	*20.6%*	*-220bps*	*21.5%*	*-96bps*	*25.9%*	*20.4%*	*-546bps*	Operating performance was under pressure
Other Income	81	95	16.8	120	(21.0)	135	215	58.9	
Depreciation	84	106	25.8	88	20.1	163	194	18.5	
EBIT	1,294	1,297	0.3	1,387	(6.5)	2,866	2,685	(6.3)	
EBIT Margin %	*22.7%*	*19.2%*	*-352bps*	*22.0%*	*-284bps*	*25.6%*	*20.6%*	*-504bps*	
Interest	6	8	23.0	6	23.0	10	14	43.2	
PBT	1,288	1,290	0.2	1,381	(6.6)	2,857	2,671	(6.5)	
Tax	285	293	2.8	377	(22.4)	635	670	5.4	
Effective tax rate %	*22.1%*	*22.7%*	*59bps*	*27.3%*	*-460bps*	*22.2%*	*25.1%*	*284bps*	Effective tax rate was lower than our expectation of 27%, however, we maintain our full year effective tax rate at 27%
Reported PAT	1,003	997	(0.6)	1,004	(0.7)	2,222	2,001	(9.9)	
Adjusted PAT	1,003	1,065	6.2	1,004	6.1	2,222	2,070	(6.9)	Excluding one time VRS cost (net of taxes)
EPS (adjusted)	7.4	7.8	6.2	7.4	6.1	16.3	15.2	(6.9)	

Source: PINC Research, Company

Exhibit 11 - Expenditure Breakup (%)

Expenditure (% of net sales)	Sep-10	Sep-11	YoY Gr %	Jun-11	QoQ Gr%	H1FY11	H1FY12	YoY Gr %	PINC Comments
Total expenditures	77.2%	80.6%	341bps	78.5%	218bps	74.1%	79.6%	546bps	
Consumption of raw materials	38.7%	39.0%	36bps	39.2%	-16bps	37.2%	39.1%	186bps	
Other Expenditure	15.3%	15.7%	41bps	15.7%	7bps	14.9%	15.7%	80bps	Should sustain between 15.5% to 16%
Advertisement & Sales Promotion Expenses	13.9%	16.9%	306bps	15.7%	122bps	13.3%	16.3%	308bps	Launch of new products along with focus on premium products required higher spending on branding
Employees Cost	9.4%	9.0%	-41bps	7.9%	104bps	8.7%	8.5%	-27bps	

Source: PINC Research, Company

Colgate-Palmolive (India)

Year Ended March (Figures in Rs mn)

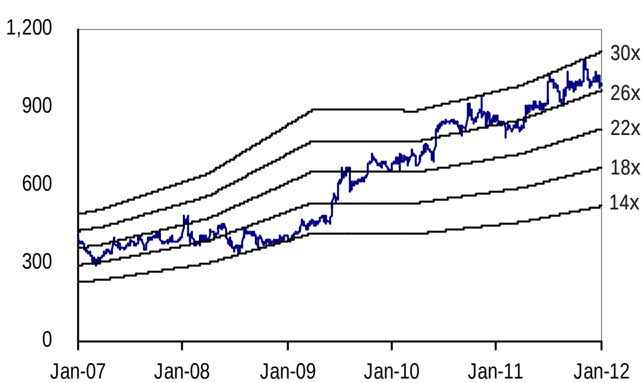
Income Statement	FY10	FY11	FY12E	FY13E	FY14E
Net sales	19,625	22,206	25,989	30,365	35,078
Growth (%)	*15.8*	*13.2*	*17.0*	*16.8*	*15.5*
Other Operating Income	548	641	750	911	1,052
Total Income	20,173	22,847	26,739	31,276	36,130
EBITDA	4,803	5,148	5,857	7,049	8,188
Growth (%)	*53.0*	*7.2*	*13.8*	*20.4*	*16.1*
Depreciation	376	343	350	371	391
Other Income	436	427	589	656	638
EBIT	4,863	5,232	6,095	7,335	8,434
Interest Paid	15	33	0	0	0
PBT (before E/o items)	4,848	5,199	6,095	7,334	8,434
Tax Provision	643	1,166	1,646	2,090	2,361
E/o income/(loss)	194	-	-	-	-
Reported PAT	4,233	4,026	4,449	5,244	6,072
Adjusted PAT	4,039	4,026	4,449	5,244	6,072
Growth (%)	*38.3*	*(0.3)*	*10.5*	*17.9*	*15.8*
Diluted EPS (Rs)	29.7	29.6	32.7	38.6	44.7
Diluted EPS Growth (%)	*38.3*	*(0.3)*	*10.5*	*17.9*	*15.8*

Cash Flow Statement	FY10	FY11	FY12E	FY13E	FY14E
Pre-tax profit	5,004	5,199	6,095	7,334	8,434
Depreciation	307	342	350	371	391
Total Tax Paid	(799)	(1,042)	(1,646)	(2,090)	(2,361)
Chg in working capital	(225)	(321)	459	345	391
Other operating acivities	(250)	(263)	0	0	0
Cash flow from oper (a)	4,037	3,916	5,259	5,960	6,855
Capital Expenditure	(313)	(409)	(150)	(150)	(150)
Chg in invetments	119	(192)	(500)	(500)	(500)
Other investing activiies	485	455	-	-	-
Cash flow from inv.(b)	291	(145)	(650)	(650)	(650)
Free cash flow (a+b)	4,328	3,771	4,609	5,310	6,205
Equity raised/(repaid)	-	-	-	-	-
Debt raised/(repaid)	(1)	(45)	-	-	-
Interest paid	(15)	(16)	(0)	(0)	(0)
Dividend (incl. Tax)	(2,879)	(2,716)	(3,978)	(4,455)	(4,932)
Other financing activities	(493)	(452)	-	-	-
Cash flow from fin. (c)	(3,388)	(3,230)	(3,978)	(4,455)	(4,933)
Net chg in cash (a+b+c)	940	541	631	855	1,272

Balance Sheet	FY10	FY11	FY12E	FY13E	FY14E
Equity Share Capital	136	136	136	136	136
Reserves & surplus	3,125	3,705	4,176	4,965	6,105
Shareholders' funds	3,261	3,841	4,312	5,101	6,241
Minorities interests	-	-	-	-	-
Total Debt	46	1	1	1	1
Capital Employed	3,307	3,841	4,312	5,101	6,241
Net fixed assets	2,531	2,673	2,473	2,252	2,010
Cash & Cash Eq.	3,476	3,956	4,587	5,442	6,714
Net Other current assets	(3,089)	(3,344)	(3,803)	(4,148)	(4,539)
Investments	210	387	887	1,387	1,887
Net Deferred tax Assets	179	168	168	168	168
Total Assets	3,307	3,841	4,312	5,101	6,241

Key Ratios	FY10	FY11	FY12E	FY13E	FY14E
OPM (%)	23.8	22.5	21.9	22.5	22.7
Net Margin (%)	20.0	17.6	16.6	16.8	16.8
Div. Yield (%)	2.0	2.2	2.5	2.9	3.2
Net debt/Equity (x)	(1.1)	(1.0)	(1.1)	(1.1)	(1.1)
Net Working Capital (days)	(55.9)	(53.4)	(51.9)	(48.4)	(45.9)
ROCE (%)	145.2	134.0	135.8	138.2	131.2
RoE (%)	123.8	104.8	103.2	102.8	97.3
EV/Net Sales (x)	6.4	5.6	4.8	4.0	3.5
EV/EBITDA (x)	27.0	25.1	21.8	18.0	15.2
PER (x)	33.0	33.1	30.0	25.4	22.0
PCE (x)	35.8	35.7	32.6	28.2	24.8
Price/Book (x)	40.9	34.7	30.9	26.2	21.4

1-Year forward P/E Band



Key Assumptions	FY11	FY12E	FY13E	FY14E
Net Sales Gr. (%)	13.2%	17.0%	16.8%	15.5%
Gross Profit Margin %	61.8%	61.6%	62.4%	62.4%
Advertisement Expense (% of sales)	15.3%	16.2%	16.3%	16.3%
Royalty (% of sales)	5.0%	5.0%	5.0%	5.0%
EBITDA Margin %	22.5%	21.9%	22.5%	22.7%

Infinity.com Financial Securities Ltd
SMALL WORLD, INFINITE OPPORTUNITIES

PINC RESEARCH

Company Update
Sector: FMCG
BSE Sensex: 15,868

MARICO

Maintain	REDUCE
CMP	Rs151
TP	Rs144

09 January 2012

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COMPANY UPDATE

Fairly Valued

Marico clocked robust sales growth of 29% during H1FY12 driven by strong sales growth in Parachute hair oil which witnessed a sharp price hike along with above expected volume growth. However, we don't expect such high growth in Parachute hair oil to sustain going forward due to limited scope of price growth.

Besides, we expect softening of input prices would help in improving gross level profitability which would be set off by higher A&P spending for the new launches and development of international business. We expect EBITDA margin would be capped at ~13%.

Slower growth in depreciation and lower interest burden on repayment of debt would translate ~19% EBITDA CAGR into ~22% net earnings CAGR during FY11-14E.

Robust H1FY12 sales growth unsustainable

Marico's 29% sales growth in H1FY12 is not sustainable in our opinion. Marico has already taken sharp price hike on Parachute which limits the scope of further price hike. Parachute volume growth at ~17% during H1FY12 was ahead of our expectation and we expect it to taper down.

Softening of input prices would be set off by higher A&P spend

Marico guided higher A&P spending for new product launches and requirement of higher marketing efforts in the international business. It would force Marico to escalate A&P (% of sales) spending by 200-250bps going forward from 9.7% in H1FY12.

Slower growth in depreciation and interest cost

Marico plans for ~Rs2bn capex over the next three years which includes ~Rs1bn capex during FY12. Besides, the company also plans to repay half of its foreign currency loans over the next 12 months. Factoring these guidance, we see slower growth in depreciation cost and decline in interest burden. This would help net earnings to grow faster than EBITDA growth.

VALUATIONS AND RECOMMENDATION

On account of limited product portfolio, higher exposure to commodity prices and moderate scope for further price hike on key brands, we maintain Marico's P/E discount over FMCG sector. We retain our 24x multiple on 12-month forward earnings and raise TP to Rs144 (earlier Rs141). We maintain our 'REDUCE' rating on the stock.

KEY FINANCIALS (CONSOLIDATED) (Rs mn)

	FY10	FY11	FY12E	FY13E	FY14E
Net Sales	26,608	31,283	39,243	45,905	53,600
YoY Gr. (%)	*11.4*	*17.6*	*25.4*	*17.0*	*16.8*
Op Profits	3,752	4,098	4,791	5,751	6,901
OPM (%)	*14.1*	*13.1*	*12.2*	*12.5*	*12.9*
Adj. Net Profit	2,535	2,668	3,108	3,853	4,863
YoY Gr. (%)	*26.8*	*4.4*	*16.5*	*24.0*	*26.2*
KEY RATIOS					
Dil. EPS (Rs)	4.2	4.3	5.1	6.3	7.9
ROCE (%)	33.7	24.0	28.6	31.6	32.2
ROE (%)	38.8	29.1	26.7	26.2	26.2
P/E (x)	36.3	34.8	29.8	24.1	19.1
EV/Sales (x)	3.6	3.1	2.5	2.0	1.7
EV/EBIDT (x)	25.2	23.8	20.1	16.3	13.1

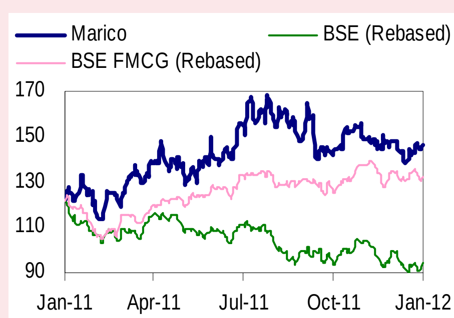
STOCK DATA

Market cap	Rs93bn
Book Value per share	Rs15
Shares O/S (F.V. Rs1)	614mn
Free Float	37%
Avg. Trade Value (6 months)	Rs55mn
52 week High/Low	Rs173/112
Bloomberg Code	MRCO IN
Reuters Code	MRCO.BO

PERFORMANCE (%)

	1M	3M	12M
Absolute	(1.1)	2.7	18.4
Relative	4.5	2.2	52.3

RELATIVE PERFORMANCE



Sharp price hike on Parachute hair oil had resulted into robust sales growth in the past 4 quarters. However, on account of limited scope of further price hike we believe H2FY12 and FY13 may witness slower sales growth…

Exhibit 1 - Parachute weighted average price growth (QoQ)

	20ml	50ml	100ml	200ml	250ml	500ml	Weighted Avg. Price Gr.%
Q1FY10	0%	0%	0%	0%	0%	0%	0%
Q2FY10	0%	0%	0%	0%	0%	0%	0%
Q3FY10	0%	0%	0%	0%	0%	0%	0%
Q4FY10	0%	-1%	0%	1%	0%	0%	0%
Q1FY11	0%	0%	0%	0%	0%	0%	0%
Q2FY11	0%	0%	0%	1%	0%	1%	3%
Q3FY11	0%	1%	1%	5%	1%	3%	10%
Q4FY11	2%	1%	1%	5%	2%	5%	16%
Q1FY12	0%	0%	0%	0%	0%	0%	0%
Q2FY12	0%	0%	0%	0%	0%	0%	0%
Q3FY12E	0%	0%	0%	0%	0%	0%	0%

Source: PINC Research, Company

We observe the similar price jump in Saffola brand in the past 4 quarters and we expect the marginal sales growth in H2FY12 and FY13…

Exhibit 2 - Saffola weighted average price growth (QoQ)

	Saffola Kardi Oil	Saffola Tasty	Saffola Gold	Saffola Active	Weighted Avg. price growth
Q1FY10	0%	-2%	-3%	0%	-5%
Q2FY10	0%	0%	0%	0%	0%
Q3FY10	0%	0%	0%	0%	1%
Q4FY10	0%	0%	1%	0%	1%
Q1FY11	0%	0%	0%	0%	0%
Q2FY11	0%	0%	1%	0%	1%
Q3FY11	2%	1%	5%	1%	9%
Q4FY11	1%	2%	3%	1%	6%
Q1FY12	0%	1%	1%	0%	2%
Q2FY12	0%	0%	0%	0%	0%
Q3FY12E	0%	0%	0%	0%	0%

Source: PINC Research, Company

Copra forms ~40% of total input cost and its prices are on rising mode…

Exhibit 3 - Copra and Safflower prices are expected to soften

	Copra Price (Rs/Quintal)	QoQ Gr%	Safflower Price (Rs/Quintal)	QoQ Gr%
Q1FY10	3,287	-14%	2,463	-4%
Q2FY10	3,160	-4%	2,397	-3%
Q3FY10	3,215	2%	2,422	1%
Q4FY10	3,473	8%	2,260	-7%
Q1FY11	3,428	-1%	2,213	-2%
Q2FY11	3,972	16%	2,227	1%
Q3FY11	5,214	31%	2,315	4%
Q4FY11	6,388	23%	2,531	9%
Q1FY12	6,727	5%	2,522	0%
Q2FY12	5,976	-11%	2,714	8%
Q3FY12E	5,436	-9%	2,729	1%

Source: PINC Research, Company

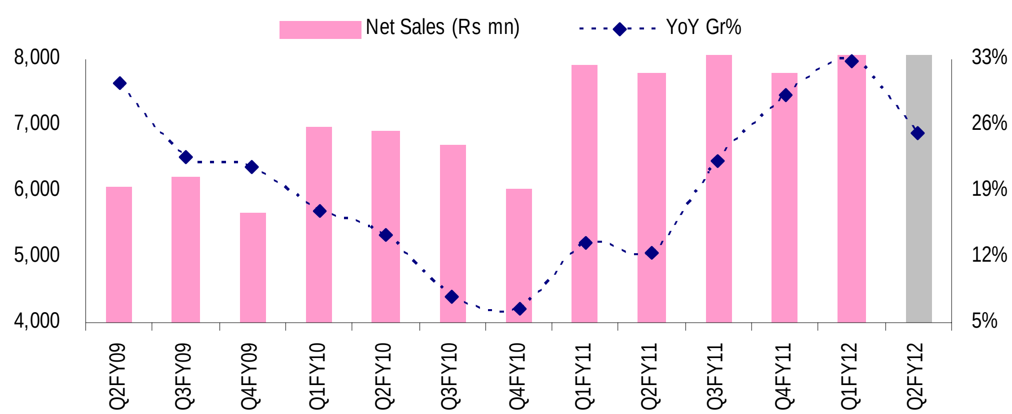
Exhibit 4 - H1FY12 Earning Summary (Rs mn)

Year End March	Q2FY11	Q2FY12	YoY Gr%	Q1FY12	QoQ Gr%	H1FY11	H1FY12	YoY Gr%
Net Sales	7,788	9,745	25.1	10,486		15,689	20,231	28.9
RM Cost	3,880	5,330	37.4	5,947	(10.4)	7,913	11,277	42.5
Gross Profit	3,908	4,415	13.0	4,539	(2.7)	7,776	8,954	15.1
Gross Margin %	50.2%	45.3%	-488bps	43.3%	202bps	49.6%	44.3%	-531bps
Staff cost	582	725	24.6	706	2.6	1,122	1,431	27.5
% of net sales	7.5%	7.4%	-3bps	6.7%	70bps	7.2%	7.1%	-8bps
Advertisements & sales promotion	949	941	(0.8)	1,023	(8.0)	1,887	1,965	4.1
% of net sales	12.2%	9.7%	-252bps	9.8%	-10bps	12.0%	9.7%	-231bps
Other Expenses	1,385	1,582	14.2	1,558	1.5	2,720	3,140	15.5
% of net sales	17.8%	16.2%	-155bps	14.9%	137bps	17.3%	15.5%	-181bps
Total expenditures	6,795	8,578	26.2	9,235	(7.1)	13,642	17,813	30.6
EBITDA	993	1,166	17.5	1,251	(6.8)	2,047	2,417	18.1
EBITDA margin %	12.7%	12.0%	-78bps	11.9%	4bps	13.0%	11.9%	-110bps
Other Income	71	106	48.9	90	18.6	116	196	69.4
Depreciation	140	177	26.9	169	4.8	260	346	33.2
PBIT	924	1,095	18.5	1,172	(6.5)	1,903	2,267	19.1
PBIT margin %	11.9%	11.2%	-63bps	11.2%	7bps	12.1%	11.2%	-92bps
Interest	65	91	40.8	97	(5.7)	135	188	39.3
PBT	860	1,004	16.8	1,075	(6.6)	1,768	2,080	17.6
Total tax	126	205	62.4	210	(2.4)	288	416	44.3
Effective tax rate %	14.7%	20.4%	574bps	19.6%	88bps	16.3%	20.0%	369bps
minority interest	17	17		15		17	32	
Reported PAT	716	783	9.2	850	(7.9)	1,463	1,633	11.6
EPS (Rs)	1.2	1.3	8.3	1.4	(7.9)	2.4	2.7	10.6

Source: PINC Research, Company

Strong top line growth after several quarters was led by price and volume increases on key brands and better IBD traction…

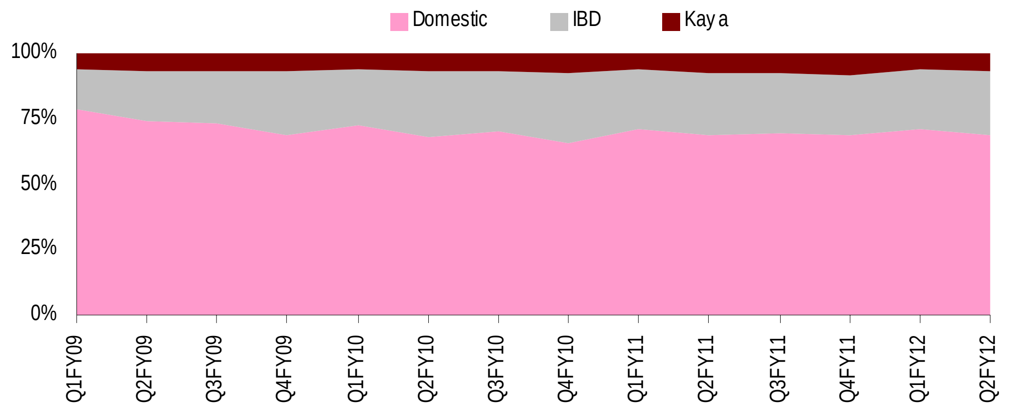
Exhibit 5 - Net Sales Performance



Source: PINC Research, Company

Exhibit 6 - Revenue Breakup

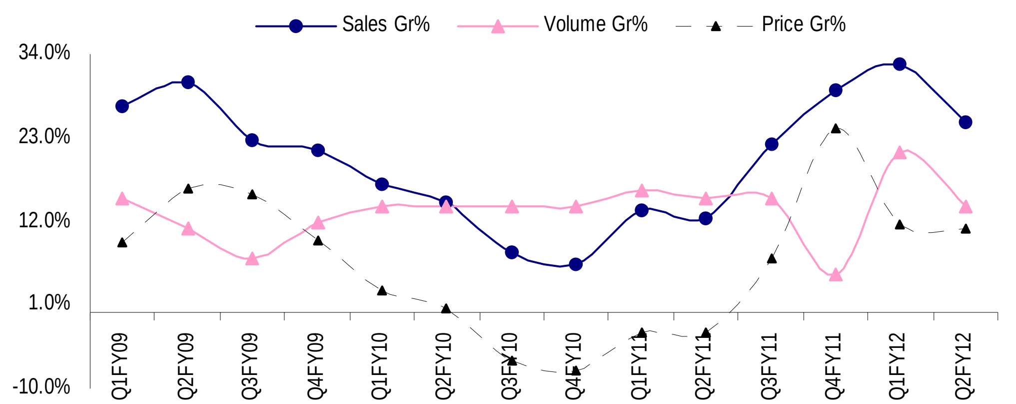
Higher growth in international business changes the mix …



Source: PINC Research, Company

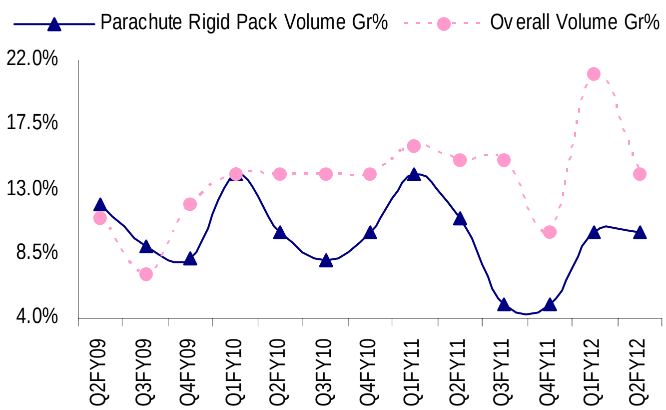
Exhibit 7 - Relationship between Sales, Volume and Price Growth

Strong volume expansion in H1FY12…



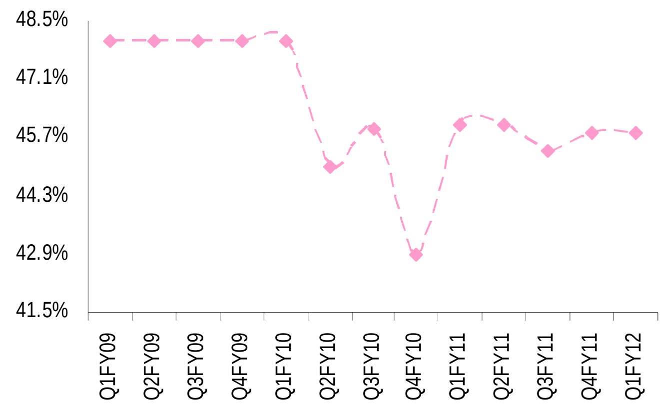
Source: PINC Research, Company

Exhibit 8 - High Dependence on Parachute Growth



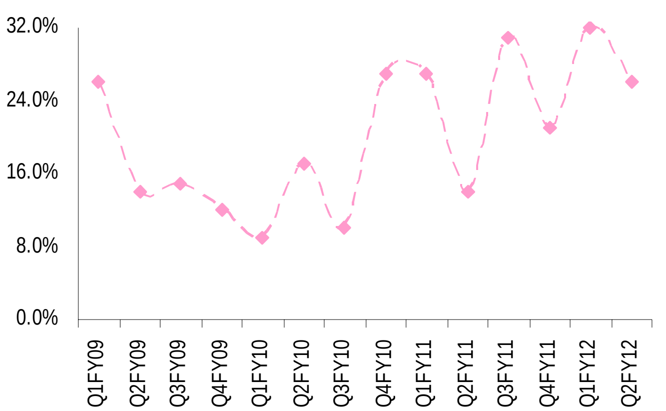
Source: PINC Research, Company

Exhibit 9 - Decline in Parachute's Market Share



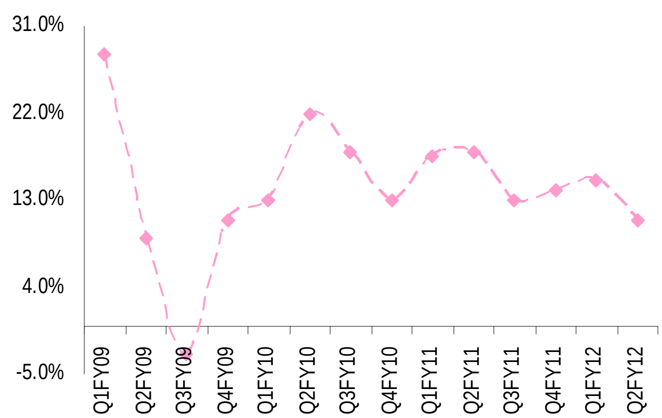
Source: PINC Research, Company

Exhibit 10 - Hair Oil Volume Growth



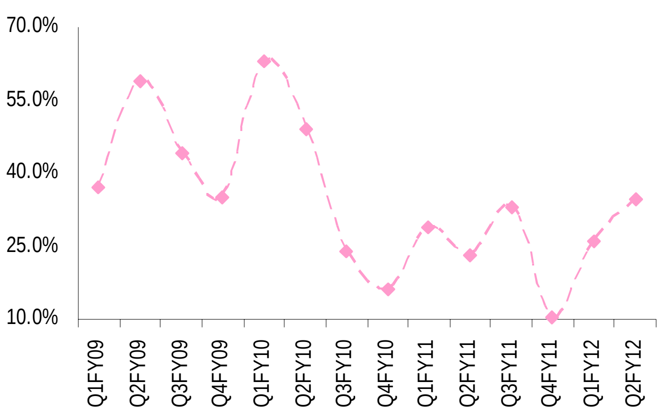
Source: PINC Research, Company

Exhibit 11- Saffola Volume Traction



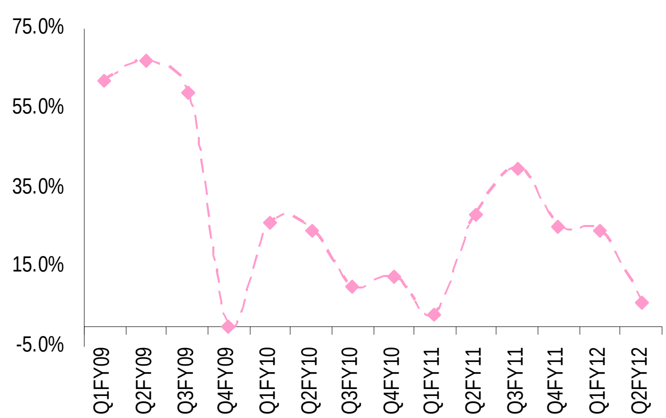
Source: PINC Research, Company

Exhibit 12 - Performance of IBD business



Source: PINC Research, Company

Exhibit 13 - Performance of Kaya



Source: PINC Research, Company

Year Ended March (Figures in Rs mn)

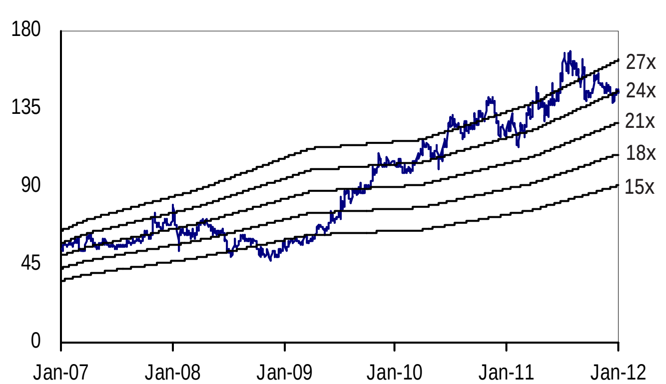
Income Statement	FY10	FY11	FY12E	FY13E	FY14E
Net sales	26,608	31,283	39,243	45,905	53,600
YoY Gr (%)	*11.4*	*17.6*	*25.4*	*17.0*	*16.8*
Gross Profit	13,992	15,104	18,052	21,757	25,648
YoY Gr (%)	*26.8*	*7.9*	*19.5*	*20.5*	*17.9*
EBITDA	3,752	4,098	4,791	5,751	6,901
YoY Gr (%)	*29.8*	*9.2*	*16.9*	*20.0*	*20.0*
Depreciation	601	708	732	857	913
Other income	183	279	313	282	386
EBIT	3,334	3,669	4,371	5,176	6,374
Interest paid	257	393	395	260	183
PBT (before E/o items)	2,979	3,764	3,976	4,916	6,191
Tax provision	613	534	815	1,008	1,269
Effective tax rate%	21.6	22.6	20.5	20.5	20.5
Reported PAT	2,317	2,864	3,108	3,853	4,863
YoY Gr (%)	*22.8*	*23.6*	*8.5*	*24.0*	*26.2*
Adjusted PAT	2,535	2,668	3,108	3,853	4,863
Diluted EPS (Rs)	4.2	4.3	5.1	6.3	7.9
Diluted EPS Growth (%)	*26.8*	*4.4*	*16.5*	*24.0*	*26.2*

Cash Flow Statement	FY10	FY11	FY12E	FY13E	FY14E
Pre-tax profit	2,979	3,764	3,976	4,916	6,191
Depreciation	601	708	732	857	913
Total tax paid	(629)	(534)	(815)	(1,008)	(1,269)
Chg in working capital	(1,287)	(1,198)	(1,243)	(766)	(1,045)
Other operating activities	358	393	395	260	183
Cash flow from oper. (a)	2,021	3,134	3,045	4,260	4,972
Capital expenditure	(1,526)	(4,966)	(1,000)	(600)	(600)
Chg in investments	(706)	(63)	-	-	-
Other investing activities	158	-	-	-	-
Cash flow from inv. (b)	(2,074)	(5,029)	(1,000)	(600)	(600)
Free cash flow (a+b)	(53)	(1,895)	2,045	3,660	4,372
Equity raised/(repaid)	218	5	-	-	-
Debt raised/(repaid)	1,001	3,259	(2,880)	(1,670)	(700)
Chg in Minorities int.	-	-	-	-	-
Dividend (incl. tax)	(472)	(546)	(627)	(784)	(980)
Other financing activities	(466)	(393)	(395)	(260)	(183)
Cash flow from fin. (c)	281	2,325	(3,903)	(2,714)	(1,863)
Net chg in cash (a+b+c)	229	430	(1,858)	945	2,509

Balance Sheet	FY10	FY11	FY12E	FY13E	FY14E
Equity capital	609	614	614	614	614
Reserves & surplus	5,930	8,540	11,021	14,090	17,973
Shareholders' funds	6,540	9,155	11,636	14,704	18,587
Minorities interests	125	219	271	327	385
Total Debt	4,459	7,718	4,838	3,168	2,468
Capital Employed	11,124	17,091	16,744	18,198	21,440
Net fixed assets	4,847	8,872	9,139	8,882	8,569
Cash & Cash Eq.	1,115	2,112	255	1,200	3,709
Net other Current Assets	3,719	4,916	6,160	6,925	7,970
Investment	827	890	890	890	890
Net Deferred Tax Assets	616	301	301	301	301
Total assets	11,124	17,091	16,744	18,198	21,440

Key Ratios	FY10	FY11	FY12E	FY13E	FY14E
OPM (%)	14.1	13.1	12.2	12.5	12.9
Net margin (%)	9.5	8.5	7.9	8.4	9.1
Dividend yield (%)	0.4	0.5	0.6	0.7	0.9
Net debt/Equity (x)	0.5	0.6	0.4	0.1	(0.1)
Net Working Capital (days)	51.0	57.4	57.3	55.1	54.3
ROCE (%)	33.7	24.0	28.6	31.6	32.2
RoE (%)	38.8	29.1	26.7	26.2	26.2
EV/Net sales (x)	3.6	3.1	2.5	2.0	1.7
EV/EBITDA (x)	25.2	23.8	20.1	16.3	13.1
PER (x)	36.3	34.8	29.8	24.1	19.1
PCE (x)	29.3	27.5	24.2	19.7	16.1
Price/Book (x)	14.1	10.1	8.0	6.3	5.0

1-Year forward P/E Band



Key Assumptions

	FY11	FY12E	FY13E	FY14E
Coconut Hair Oil Sales Mix (%)	31.9%	32.8%	31.7%	30.5%
Saffola Sales Mix (%)	15.5%	15.9%	16.6%	17.3%
IBD Sales Mix (%)	23.8%	23.5%	23.7%	24.0%
Kaya Sales Mix (%)	7.6%	7.7%	7.9%	8.1%
EBITDA Margin Expansion (bps)	(100.1)	(89.1)	32.1	34.6
Effective Tax Rate %	22.6%	20.5%	20.5%	20.5%

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Company Update
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JYOTHY LABORATORIES

Maintain	BUY
CMP	Rs160
TP	Rs212

09 January 2012

Naveen Trivedi **+91-22-6618 6384**
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Expectation of operational improvement

We believe Jyothy Labs (Jyothy) standalone business should recover from H2FY12 onwards. Except Maxo, the dynamics of the standalone business are still at the same level. National launch of Exo has already started showing strong numbers and reported 23% growth in H1FY12. While 7% price hike on Ujala Supreme along with higher focus on the core business should result into better fabric care growth.

Slight uncertainty remains over Maxo as its dynamics has changed in the past one year post the reduction in the distribution margin and higher competitive intensity. While the launch of advance version of liquid mosquito repellent and higher growth in disposable income in the Eastern region (key market for Maxo) can surprise going forward.

We introduce FY14E numbers and maintain 'BUY' recommendation with TP of Rs212.

Standalone EBITDA margin to improve

We believe Jyothy's standalone low EBITDA margin in H1FY12 is not sustainable going forward. Ujala Supreme contributes >70% of the standalone EBITDA and post the stability in the sales distribution we expect better business from this front. Ujala Supreme sales in H1FY12 was down by ~10% which why overall profitability was under pressure. We don't see reasons for pressure on its consumer demand.

Henke India's (Henkel) performance encouraging

Improvement in Henkel's profitability since acquisition has been encouraging. However, the key challenge will be to harness the synergy by improving the sales of Henkel brands. Other thing to watch out for will be monetization of idle assets available with Henkel which will help the company in reducing the interest burden.

Synergy benefits to come

We remain positive on the long term growth potential of the combined business. The combined entity represents several synergies i.e. better revenue mix, optimum rural/urban ratio and cost saving on distribution. Jyothy now has multiple drivers to run the business and better execution can reduce timing of turnaround in Henkel India.

VALUATIONS AND RECOMMENDATION

Jyothy's under performance in the past three quarters has resulted into 40% decline in the stock price in last 9 months. We believe investor's visibility in the business would be clearer with each quarter's better performance. We maintain 16x multiple to Jyothy's FY13 earnings and add Rs12/share NPV on tax saving of Rs1.2bn at 12% discount rate. We maintain our 'BUY' recommendation with TP of Rs212.

KEY FINANCIALS (CONSOLIDATED) (Rs mn)

	FY10	FY11	FY12E	FY13E	FY14E
Net Sales	5,975	6,174	11,675	13,754	15,678
YoY Gr. (%)	*23.5*	*3.3*	*89.1*	*17.8*	*14.0*
Op. Profits	929	727	1,132	1,775	2,004
OPM (%)	*15.6*	*11.8*	*9.7*	*12.9*	*12.8*
Adj. Net Profit	743	688	452	1,000	1,212
YoY Gr. (%)	*45.2*	*(7.4)*	*(34.3)*	*121.4*	*21.2*
KEY RATIOS					
Dil EPS (Rs)	9.2	8.5	5.6	12.4	15.0
ROCE (%)	23.2	10.4	10.5	16.8	18.2
RONW (%)	19.2	10.9	8.5	16.9	17.9
P/E (x)	17.4	18.8	28.6	12.9	10.6
EV/Sales (x)	2.0	1.6	1.5	1.2	1.0
EV/EBITDA (x)	12.7	14.0	15.7	9.5	8.0

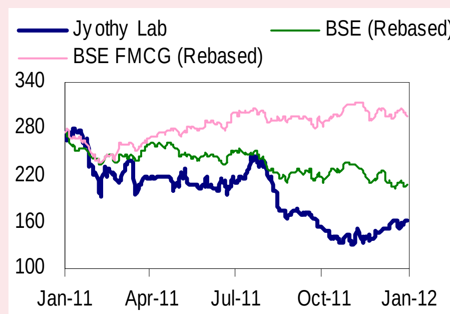
STOCK DATA

Market cap	Rs13bn
Book Value per share	Rs53
Shares O/S (F.V. Rs1)	81mn
Free Float	35%
Avg. Trade Value (6 months)	Rs15mn
52 week High/Low	Rs284/125
Bloomberg Code	JYL IN
Reuters Code	JYOI.BO

PERFORMANCE (%)

	1M	3M	12M
Absolute	10.6	7.2	(41.1)
Relative	16.9	6.7	(24.3)

RELATIVE PERFORMANCE



Standalone EBITDA margin to improve

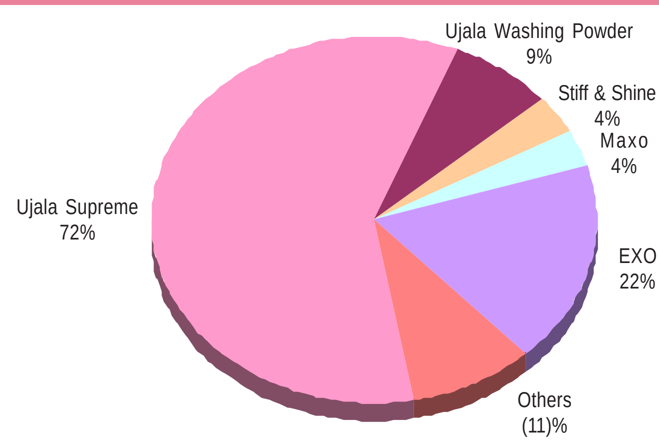
Jyothy's standalone operational performance in the past two quarters was under severe pressure. EBITDA margin dipped to 9% and 5% during Q1FY12 and Q2FY12 on account of lower sales of high margin Ujala Supreme, higher input pressure and change in the distribution model. We believe Ujala Supreme consists >70% of the overall EBITDA hence lower sales of that business impacted the overall margin profile of the company. We believe Jyothy's standalone low EBITDA margin in H1FY12 is not sustainable going forward. Ujala Supreme sales in H2FY12 should be better than H1FY12 due to stability in the distribution model and 7% price hike. Better revenue mix in H2FY12 would expand the EBITDA margin.

Exhibit 1 - Segment Performance

	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11
Sales Mix (Rs mn)									
Fabric Care	650	665	751	826	699	760	713	677	651
Maxo	312	396	726	282	372	336	469	183	390
Exo	247	210	322	292	272	296	280	294	398
Others	91	83	99	113	105	85	98	77	108
Total	**1,301**	**1,354**	**1,899**	**1,513**	**1,449**	**1,477**	**1,560**	**1,230**	**1,547**
Sales Mix (%)									
Fabric Care	18%	21%	37%	26%	7%	14%	-5%	-18%	-7%
Maxo	-10%	15%	111%	24%	19%	-15%	-35%	-35%	5%
Exo	58%	35%	106%	29%	10%	41%	-13%	1%	46%
Others	21%	10%	32%	35%	15%	3%	-1%	-32%	3%
Total	**16%**	**20%**	**69%**	**27%**	**11%**	**9%**	**-18%**	**-19%**	**7%**
EBITDA Margin (%)	**13%**	**14%**	**19%**	**22%**	**13%**	**12%**	**11%**	**9%**	**5%**

Source: PINC Research, Company

Exhibit 2 - EBITDA Mix (FY11)



Source: PINC Research

Encouraging performance of Henkel

Henkel displayed positive EBITDA post the acquisition by Jyothy and it was encouraging particularly when Henkel was making operational losses since so many years. Jyothy cut down several operational expenses of Henkel to achieve this profitability. Now we believe the key challenge will be to harness the synergy by improving the sales of Henkel's brands.

Exhibit 3 - Henkel India's 9MCY11 Performance (Rs mn)

Henkel Consolidated	Sep-10	Sep-11	YoY Gr.	Jun-11	QoQ Gr.	9MCY10	9MCY11	YoY Gr.	PINC Comments
Net Sales	1,354	1,075	(20.6)	1,231	-12.7%	4,195	3,498	(16.6)	Sales decline was expected
Total RM cost	822	591	(28.1)	712	-17.0%	2,349	1,967	(16.3)	
Gross Profit	532	484	(9.1)	520	-6.8%	1,846	1,531	(17.1)	
Gross margin (%)	39.3%	45.0%	572bps	42.2%	284bps	44.0%	43.8%	-23bps	
Employee Expenses	107	51	(52.3)	73	-29.4%	306	224	(26.6)	Due to sharp reduction in staff
Other Expenses	469	296	(36.9)	400	-25.9%	1,702	1,205	(29.2)	
Total Expenditures	1,398	938	(32.9)	1,184	-20.7%	4,357	3,396	(22.1)	
EBITDA	(44)	136	na	47	189.0%	(161)	102	na	Strong EBITDA on account of control on several overheads cost
EBITDA Margin %	-3.3%	12.7%	na	3.8%	886bps	-3.8%	2.9%	na	
Other Income	-	(13)	na	62	na	1	54	na	
Interest	90	128	42.3	96	33.5%	201	317	57.9	
Depreciation	15	23	48.7	14	56.9%	46	52	11.9	
PBT before exceptional item	(150)	(28)	na	(2)	1517.6%	(407)	(213)	na	
Exceptinal item	-	-	na	254	na	-	254	na	
PBT after exceptioal item	(150)	(28)	na	252	na	(407)	41	na	
Tax	-	-	na	-	na	-	-	na	
Reported PAT	(150)	(28)	na	252	na	(407)	41	na	
Adjusted PAT	(150)	(28)	na	(2)	na	(407)	(213)	na	

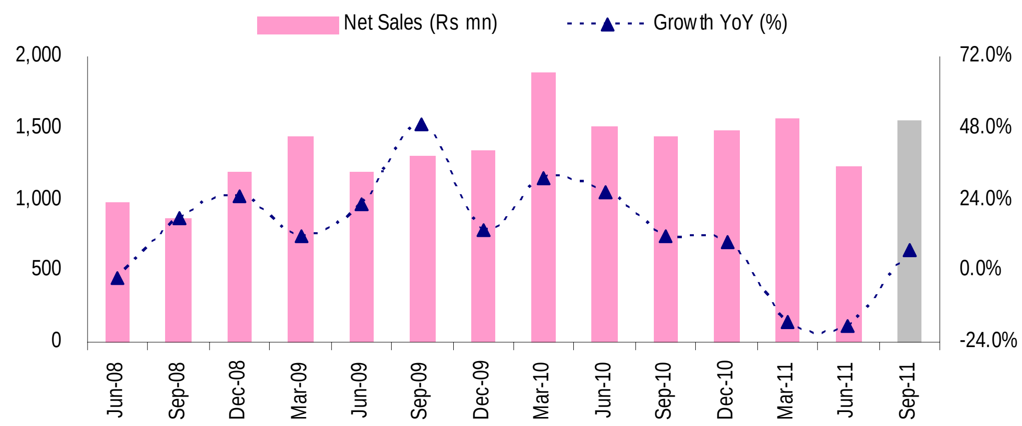
Source: PINC Research, Company

Synergy benefits to come

We are positive on the long term growth potential of the business. The combined entity represents several synergies i.e. better revenue mix, optimum rural/urban ratio and cost saving on distribution. Jyothy's product portfolio is now more balanced and it has multiple drivers to run the business. Jyothy was already trying to reduce its dependence over Ujala Supreme therefore investing high on Maxo and Exo. Through Henkel, Jyothy now has extended its detergent presence as well as entered into personal care segment too. Under the Jyothy's management, Henkel's business can show consistent profitable performance.

Despite the sales had quarter variability, annual sales were consistently moving in up trend…

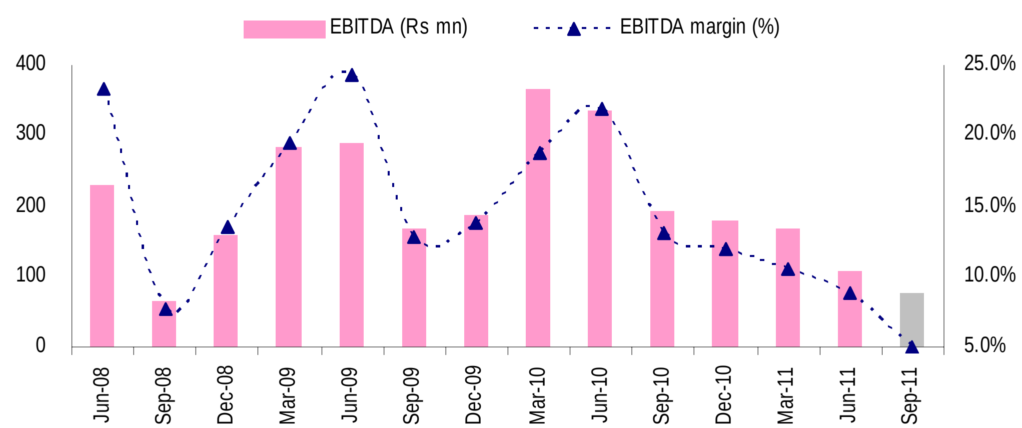
Exhibit 4 - Net Sales Performance



Source: Company, PINC Research

Seasonality and withdrawal of sales promotion in Maxo and high investment for Ujala brand were the main reasons for inconsistency in operating performance...

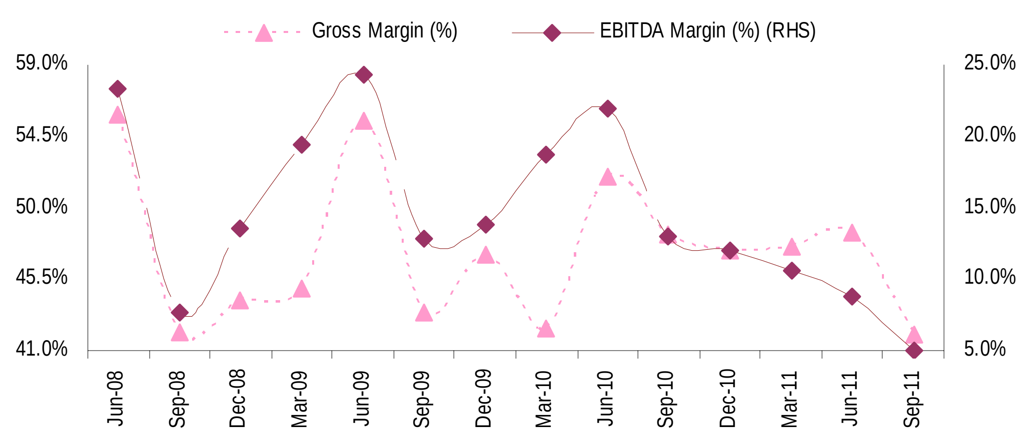
Exhibit 5 - EBITDA (Rs mn) and Margin (%)



Source: Company, PINC Research

RM has high relevance on overall operating performance…

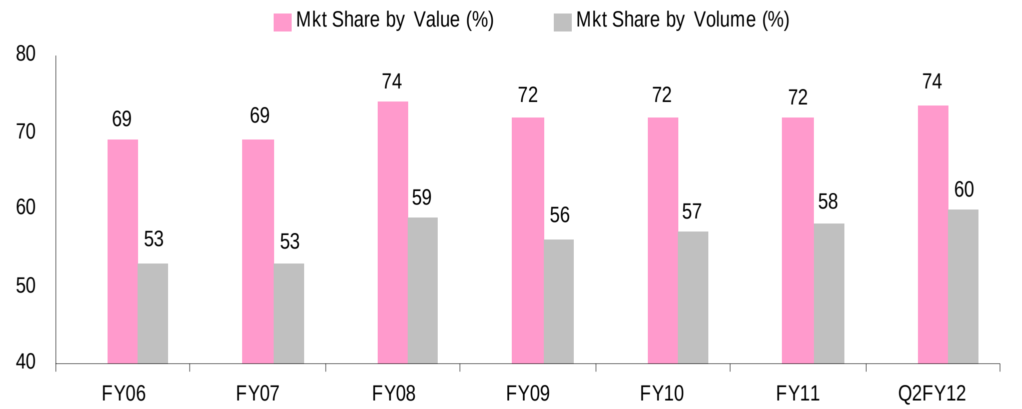
Exhibit 6 - Margins Movement (%)



Source: Company, PINC Research

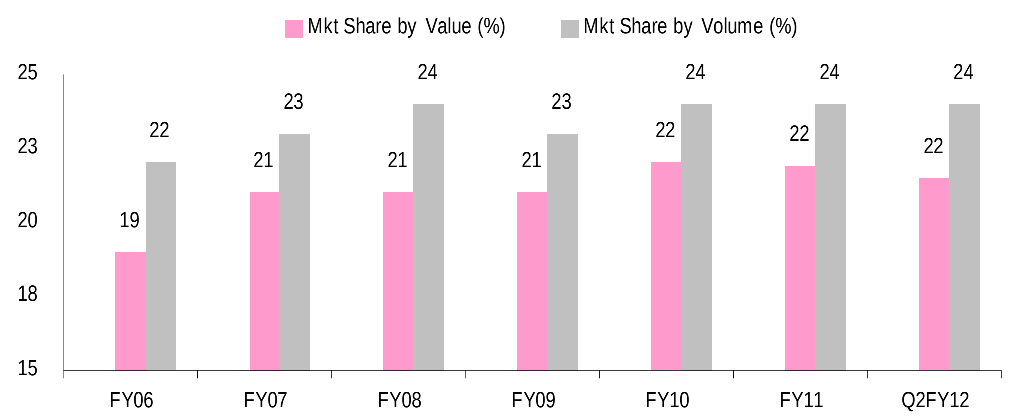
Leadership in the product leads to ~300bps improvement in value market share and ~500bps in volume market share…

Exhibit 7 - Ujala Supreme's Improvement in Market Share



Source: Company, PINC Research

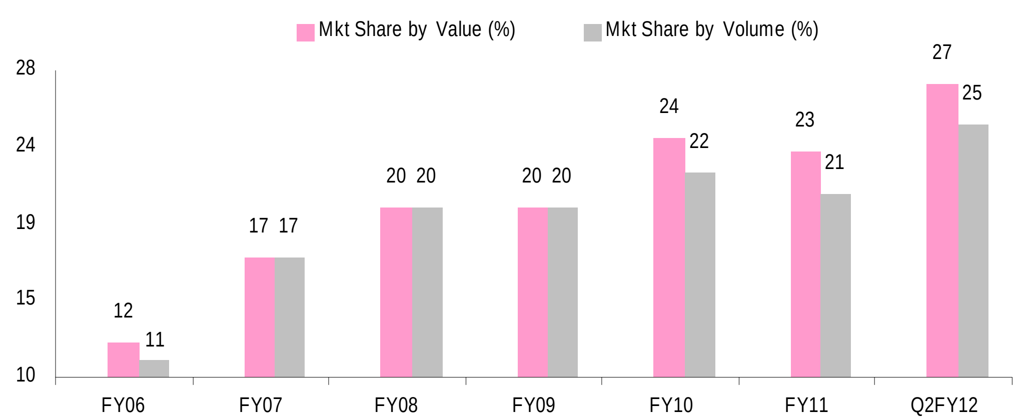
Exhibit 8 - Maxo Market Share



Source: Company, PINC Research

Exo market has been doubled in Southern India in past 5 years …

Exhibit 9 - Exo Market Share Trajectory in South India



Source: Company, PINC Research

Year Ended March (Figures in Rs mn)

Income Statement	FY10	FY11	FY12E	FY13E	FY14E
Net sales	5,975	6,174	11,675	13,754	15,678
YoY Growth (%)	*23.5*	*3.3*	*89.1*	*17.8*	*14.0*
EBITDA	929	727	1,132	1,775	2,004
YoY Growth (%)	*40.8*	*(21.8)*	*55.7*	*56.8*	*12.9*
Depreciation	124	130	234	261	301
Other Income #	166	237	122	126	130
EBIT	971	833	1,020	1,640	1,832
Interest Paid	17	21	408	460	409
PBT (before E/o items)	955	812	612	1,180	1,423
Exceptional gain/(loss)	-	-	254	-	-
Tax Provision	215	154	113	160	167
Minority Interest	(3)	(30)	47	68	103
Reported PAT	743	688	705	1,000	1,212
Adjusted PAT	743	688	452	1,000	1,212
YoY Growth (%)	*45.2*	*(7.4)*	*(34.3)*	*121.4*	*21.2*
Diluted EPS (Rs)	9.2	8.5	5.6	12.4	15.0
Diluted EPS Growth (%)	*45.2*	*(7.4)*	*(34.3)*	*121.4*	*21.2*

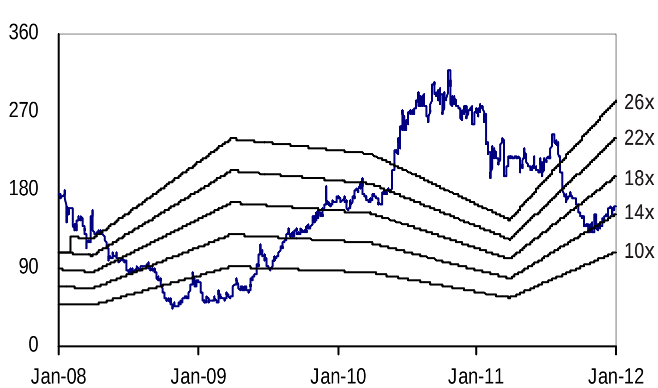
 # Excluding interest income from Henkel India

Cash Flow Statement	FY10	FY11	FY12E	FY13E	FY14E
Pre-tax profit	955	812	612	1,227	1,481
Depreciation	124	130	234	261	301
Total Tax Paid	(157)	(225)	(113)	(160)	(167)
Chg in working capital	(290)	(583)	194	162	(137)
Other operating activities	(129)	(190)	408	460	409
Cash flow from oper (a)	503	(55)	1,334	1,950	1,888
Capital Expenditure	(326)	(348)	(6,748)	(300)	(300)
Chg in investments	(132)	(2,172)	607	-	-
Other investing activities	96	90	-	-	-
Cash flow from inv.(b)	(363)	(2,430)	(6,141)	(300)	(300)
Free cash flow (a+b)	140	(2,485)	(4,807)	1,650	1,588
Equity raised/(repaid)	-	2,244	-	-	-
Debt raised/(repaid)	129	560	4,717	(900)	(500)
Interest paid	(17)	(21)	(408)	(460)	(409)
Dividend (incl. Tax)	(170)	(338)	(323)	(323)	(323)
Other financing activities	(1)	-	(1,397)	(55)	(55)
Cash flow from fin. (c)	(59)	2,444	2,590	(1,738)	(1,286)
Net chg in cash (a+b+c)	81	(41)	(2,217)	(87)	302

Balance Sheet	FY10	FY11	FY12E	FY13E	FY14E
Equity Share Capital	73	81	81	81	81
Reserves & surplus	3,805	6,230	5,216	5,838	6,673
Shareholders' funds	3,878	6,311	5,297	5,919	6,753
Minorities interests	5	5	52	120	223
Total Debt	130	690	5,407	4,507	4,007
Capital Employed	4,013	7,006	10,756	10,546	10,983
Net fixed assets	2,378	2,607	9,375	9,414	9,412
Cash & Cash Eq.	1,224	2,809	592	505	807
Net Other current assets	586	1,199	1,005	843	980
Investments	1	607	-	-	-
Net Deferred tax Assets	(178)	(216)	(216)	(216)	(216)
Total Assets	4,011	7,006	10,756	10,546	10,983

Key Ratios	FY10	FY11	FY12E	FY13E	FY14E
OPM (%)	15.6	11.8	9.7	12.9	12.8
Net Margin (%)	12.4	11.1	3.9	7.3	7.7
Div. Yield (%)	2.5	3.1	2.5	2.5	2.5
Net debt/Equity (x)	(0.3)	(0.3)	0.9	0.7	0.5
Net Working Capital (days)	35.8	70.9	31.4	22.4	22.8
ROCE (%)	23.2	10.4	10.5	16.8	18.2
RoE (%)	19.2	10.9	8.5	16.9	17.9
EV/Net Sales (x)	2.0	1.6	1.5	1.2	1.0
EV/EBITDA (x)	12.7	14.0	15.7	9.5	8.0
PER (x)	17.4	18.8	28.6	12.9	10.6
PCE (x)	14.7	15.8	18.8	10.2	8.5
Price/Book (x)	3.0	2.0	2.4	2.2	1.9

1-Year forward P/E Band



Key Assumptions

	FY11	FY12E	FY13E	FY14E
Net Sales Gr. (%)	13.2%	17.0%	16.8%	15.5%
Gross Profit Margin %	61.8%	61.6%	62.4%	62.4%
Advertisement Expense (% of sales)	15.3%	16.2%	16.3%	16.3%
Royalty (% of sales)	5.0%	5.0%	5.0%	5.0%
EBITDA Margin %	22.5%	21.9%	22.5%	22.7%

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Rating Objective

Rating	Large Caps	Mid Caps
	M.Cap > USD1bn	M.Cap <= USD1bn
	Return %	
BUY	More than 15	More than 20
Accumulate	5 to 15	10 to 20
Reduce	(-)5 to +5	0 to 10
Sell	Below (-)5	Less than 0

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