

We expect BRICS FMCG universe to report revenue growth of ~11%, led by healthy volume traction across companies. EBITDA margin expansion of 140bps (led by ITC and HUL – weak Q4FY09) to result in 27% rise in earnings.

FMCG companies (excluding ITC and HUL) are likely to report ~15% revenue and flat earnings growth. EBITDA margin is likely to shrink 300bps largely due to food companies Nestle and GSK Consumer witnessing input cost pressures. However, with cost pressures still low on commodity-related raw materials, yoy margin should be healthy for Colgate, Dabur, Godrej Consumer, Marico, Zydus Wellness and Jyothy.

HUL continues to face stiff competition, especially in soaps and detergents. Current valuation factors in market share concerns and hence we expect the stock to outperform. However, we like ITC more than HUL as it has demonstrated strong pricing power in cigarettes and other businesses like agri, paperboards, hotels and FMCG are delivering improved performance.

We have BUY on Jyothy as we expect strong volume traction in repellent market to continue and expect it to consolidate market share. We have Outperform rating on Colgate.



Valuations

Company	CMP (Rs)	Net Sales		EBITDA (%)		EPS (Rs)		ROE (%)		P/E (x)		EV/EBITDA (x)		Rating
		FY10E	FY11E	FY10E	FY11E	FY10E	FY11E	FY10E	FY11E	FY10E	FY11E	FY10E	FY11E	
ITC	268	173,618	193,891	40,413	45,834	10.6	12.1	25.4	25.0	25.1	22.2	16.2	14.5	Outperform
HUL	222	179,519	197,471	21,810	24,427	10.0	11.2	103.2	99.6	22.2	19.8	17.4	15.0	Outperform
Nestle India*	2,720	60,007	70,260	7,997	9,128	82.9	94.7	117.7	115.4	32.8	28.7	21.2	18.6	Underperform
Colgate-Palmolive India	701	20,376	23,138	3,938	4,414	29.0	32.5	136.6	119.6	24.2	21.6	20.1	17.7	Outperform
GSK Consumer Healthcare*	1,532	22,499	25,296	2,708	3,013	64.4	71.7	25.3	24.0	23.8	21.4	13.9	12.4	Underperform
Jyothy Laboratories	174	5,524	6,471	793	937	10.9	12.9	19.9	20.6	15.9	13.5	12.1	10.3	BUY
Zydus Wellness	415	2,698	3,370	405	546	9.8	14.0	42.3	40.6	42.3	29.7	27.2	22.4	Underperform
Jubilant Foodworks	389	4,069	5,900	310	481	4.9	7.6	27.4	29.8	79.8	51.4	38.5	26.4	Underperform
Jain Irrigation Systems	1,021	34,075	41,844	2,287	3,429	30.2	45.3	20.2	24.4	33.8	22.6	15.1	11.5	Underperform

Source: BRICS Research

* Year ending December

Colgate-Palmolive India

Mar 10 Estimate		(Rs mn)				
	Q4FY10E	Q4FY09	yoy (%)	Q3FY10	qoq (%)	Comments
Revenue	5,392	4,722	14.2	5,110	5.5	Volumes to outpace category growth of ~12% in Q4FY10
EBITDA	1,029	928	10.9	1,212	(15.1)	Margin pressure seen on rising input costs and higher other expenditure
EBITDA (%)	19.1	19.7		23.7		
PAT	843	771	9.4	1,164	(27.6)	
EPS (Rs)	6.6	5.7	14.7	8.6	(23.4)	

Source: BRICS Research

Outperform

CMP: Rs701

Valuation and view

We expect 14.1% revenue CAGR and 20.5% PAT CAGR over FY09-12. Colgate tops the FMCG valuation pyramid with high revenue and earnings visibility as compared to peers like HUL (market share worry), Dabur and Marico (higher leverage and lower RoE). Our DCF value is Rs742 (3% terminal growth and 9.6% WACC).

Zydus Wellness

Mar 10 Estimate		(Rs mn)				
	Q4FY10E	Q4FY09	yoy (%)	Q3FY10	qoq (%)	Comments
Revenue	654	445	47.1	753	(13.1)	Strong traction in Sugar Free and EverYuth volume to continue
EBITDA	153	128	20.1	207	(26.1)	
EBITDA (%)	23.4	28.7		27.5		Margin contraction likely led by higher ad spends
PAT	104	86	21.9	143	(27.1)	
EPS (Rs)	2.7	2.2	21.9	3.7	(27.1)	

Source: BRICS Research

Underperform

CMP: Rs415

Valuation and view

We expect 29.4% revenue CAGR and 45.7% earnings CAGR over FY09-12E. Despite, strong earnings traction, healthy return ratios and leadership position in niche categories, valuation is expensive at 29.7x and 22x our FY11E and FY12E EPS of Rs14 and Rs18.9, respectively. Our DCF value based on 4% terminal growth and 11.7% WACC translates into Rs338.

Hindustan Unilever

Mar 10 Estimate		(Rs mn)				
	Q4FY10E	Q4FY09	yoy (%)	Q3FY10	qoq (%)	Comments
Revenue	43,450	39,883	8.9	45,043	(3.5)	Growth led by personal care and foods. Soaps and detergents recover some loss in volume share
EBITDA	6,710	5,493	22.2	7,875	(14.8)	
EBITDA (%)	15.4	13.8		17.5	(11.7)	Margin likely to be lower qoq, but higher yoy due to base effect. Ad push for volume expansion
PAT	5,649	3,480	62.3	6,491	(13.0)	Yoy impact not strictly comparable as Q4FY09 PAT included extraordinary expense
EPS (Rs)	2.6	1.6	62.2	3.0	(13.0)	

Source: BRICS Research

Nestle India

Mar 10 Estimate		(Rs mn)				
	Q4FY10E	Q4FY09	yoy (%)	Q3FY10	qoq (%)	Comments
Revenue	14,407	12,708	13.4	13,577	6.1	Prepared dishes and milk products to drive volume, led by product launches and increased focus on low unit packs
EBITDA	2,900	3,041	(4.6)	1,836	57.9	Margin to be impacted on rising raw material costs
EBITDA (%)	20.1	23.9		13.5		
PAT	1,905	1,973	(3.4)	1,129	68.7	
EPS (Rs)	19.8	20.5	(3.4)	11.7	68.7	

Source: BRICS Research

Outperform

CMP: Rs222

Valuation and view

We believe valuation at P/E of 22.2x FY10E and 19.8x FY11E EPS, factors in market share worries. Hence the stock is likely to outperform.

Underperform

CMP: Rs2,720

Valuation and view

We expect 16.8% revenue CAGR and 18.1% earnings CAGR over CY09-11. Valuation at P/E of 32.8x CY10E and 28.7x CY11E (EV/EBITDA 21.2x CY10E) is at premium to peers. Nestle has strong earnings visibility, high return ratios and continued dominance in India's food & beverages market. However, intensifying competition especially in prepared dishes segment would result in valuation premium over peers to narrow.

Jubilant Foodworks

Mar 10 Estimate						(Rs mn)
	Q4FY10E	Q4FY09	yoy (%)	Q3FY10	qoq (%)	Comments
Revenue	1,073	741	44.7	1,174	(8.6)	Quick store rollouts to result in strong revenue growth
EBITDA	179	127	41.5	197	(9.0)	
EBITDA (%)	16.7	17.1		16.8		EBITDA margin healthy on improved operating leverage despite new store roll-outs
PAT	88	35	152.4	114	(22.4)	PAT to expand more than EBITDA on lower interest outgo and higher other income
EPS (Rs)	1.4	0.6	130.8	1.8	(22.4)	

Source: BRICS Research

ITC

Mar 10 Estimate						(Rs mn)
	Q4FY10E	Q4FY09	yoy (%)	Q3FY10	qoq (%)	Comments
Revenue	42,987	38,918	10.5	45,319	(5.1)	Growth led by cigarettes, paperboards and FMCG
EBITDA	16,073	12,983	23.8	17,076	(5.9)	Pricing power in cigarettes, shrinking FMCG losses and better profitability in agri business to keep margin healthy. Hotel PBIT pressure also eases
EBITDA (%)	37.4	33.4		34.7		
PAT	10,100	8,090	24.8	11,442	(11.7)	
EPS (Rs)	2.7	2.1	24.2	3.0	(11.7)	

Source: BRICS Research

Underperform

CMP: Rs389

Valuation and view

We expect 45% revenue CAGR and 108% earnings CAGR over FY09-12, with 16% EBITDA margin in FY12. While it is the only listed play on India's QSR space and expected strong earnings traction, we believe the stock is richly valued at 51.4x and 36.7x FY11E and FY12E EPS. Our DCF value based on 3% terminal growth and 12.2% WACC is Rs310.

Outperform

CMP: Rs268

Valuation and view

Our 11.8% revenue and 16.1% earnings CAGR for FY09-FY12E translates into FDEPS of Rs12.1 in FY11 and Rs13.5 in FY12. Valuation at P/E of 22.2x FY11E and 19.8x FY12E (EV/EBITDA at 14.8x FY11E and P/CF from operations at 19.2x FY11E) is reasonable considering strong pricing power in its cash cow cigarettes business and improved growth expectations from other businesses.

GlaxoSmithKline Consumer Healthcare

Mar 10 Estimate		(Rs mn)				
	Q4FY10E	Q4FY09	yoy (%)	Q3FY10	qoq (%)	Comments
Revenue	6,181	5,394	14.6	4,334	42.6	Growth led by Horlicks brand of products and new launches
EBITDA	1,118	1,187	(5.8)	521	114.7	Higher ad spends, rising food product prices to contract margin
EBITDA (%)	18.1	22.0		12.0		
PAT	712	839	(15.1)	337	111.5	EBITDA margin contraction and lower other income yoy to lead to lower PAT
EPS (Rs)	16.9	19.9	(15.1)	8.0	111.5	

Source: BRICS Research

Jyothy Laboratories

Mar 10 Estimate		(Rs mn)				
	Q4FY10E	Q4FY09	yoy (%)	Q3FY10	qoq (%)	Comments
Revenue	1,666	1,449	15.0	1,356	22.8	Growth led by traction in repellants and dishwash portfolio
EBITDA	293	78	5.4	187	57.2	Improved profitability in repellants and dishwash segments and operating leverage to keep overall profitability strong
EBITDA (%)	17.6	19.2		13.8		
PAT	264	214	23.1	168	56.7	PAT growth higher than EBITDA growth due to lower tax outgo
EPS (Rs)	3.6	3.0	23.1	2.3	56.7	

Source: BRICS Research

Underperform

CMP: Rs1,532

Valuation and view

We expect GSK to record 12.9% revenue CAGR and 13.8% earnings CAGR over CY09-11. While CY09 earnings growth is high at 24% yoy, we expect EPS growth to slow down to 16.3% for CY10 at Rs64.4. GSK trades at 23.8x and 21.4x our CY10E and CY11E EPS, close to higher end of its PE band (15-22x). Our DCF value (10.1% WACC, 4% terminal growth) translates into Rs1,322. We believe current valuation mirrors all positives.

BUY

CMP: Rs174

Valuation and view

The stock trades at attractive valuation of 13.5x and 11.8x our FY11E and FY12E EPS of Rs12.9 and Rs14.7, respectively. While core business is showing strong growth traction, we expect laundry business to gain momentum and create value for shareholders. As the venture acquires scale, we expect resultant improved return ratios to attract external investors - which would positively influence valuation metrics of core business as well.

BRICS RECOMMENDATION SCALE

BUY:	> 10% outperformance to Sector
SELL:	> 10% underperformance to Sector
Outperform:	0 to 10% outperformance to Sector
Underperform:	0 to 10% underperformance to Sector

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