



BSE Sensex: 9,149

S&amp;P CNX: 2,784

3 February 2009

COMPANY NAME	PG.	
Asian Paints (Neutral, Rs769)	7	<p><b>Slowdown in volume growth apparent now:</b> Our concerns on the likely decline in volume growth were reflected in the 3QFY09 results with major players like HUL, Marico, and Asian Paints facing severe pressure on volumes. Discretionary spends like paints, refined edible oil, deodorants and health supplements reported lower volume growth. High penetration categories like soaps and detergents reported flat volumes due to sharp price increases and grammage reduction. However, category focused players like Britannia, Colgate, and United Spirits reported sequential improvement in volume growth.</p> <p><b>Benefit of lower crude based input price to reflect in 4QFY09:</b> Our FMCG universe posted gross margin decline of 390bp YoY. Gross margins of large size declined just 220bp, while mid-size and small-size companies reported a gross margin decline of 830bp and 550bp respectively. Sharp decline in gross margin came as a surprise as we were expecting gross margin pressures to recede in the December quarter, particularly for companies using more of crude-based inputs. Inventories/forward covers of high cost raw materials purchased up to August/September resulted in severe margin erosion. We expect lower costs to start getting reflected in financials of 4QFY09 for users of crude-based inputs. We expect agri inputs to remain firm, which will delay margin recovery for user segments.</p> <p><b>Lower ad spend and other expenditure restrict EBITDA margin decline:</b> Despite the 390bp decline in gross margin, our FMCG universe companies were successful in restricting a decline in EBITDA margin to 170bp (operating leverage of 220bp) by focusing on cost control measures in ad spend and other overheads. Advertising spend for the companies (excluding ITC and Asian Paints) grew by a mere 2% YoY in December 2008 (9.9% of sales in December 2008 v/s 11.4% in December 2007) v/s 12% YoY growth in September 2008. Fewer consumer activation initiatives and new launches contributed to lower ad spends. Lower growth in other expenditure also resulted in a positive operating leverage.</p> <p><b>Large size companies outperform at operating level:</b> Mid size companies were outperforming at the operating level till September 2008. Poor performance from Asian Paints and United Spirits resulted in 34% PAT decline for mid size as against 9.3% increase for large caps and 10.3% PAT growth for small size. Large size companies in our coverage</p>
Britannia Industries (Buy, Rs1,382)	8	
Colgate Palmolive (Buy, Rs417)	9	
Dabur India (Neutral, Rs88)	10	
GlaxoSmithKline Consumer (Buy, Rs600)	11	
Godrej Consumer Products (Buy, Rs130)	12	
Hindustan Unilever (Neutral, Rs264)	13	
ITC (Buy, Rs181)	14	
Marico (Buy, Rs58)	15	
Tata Tea (Neutral, Rs563)	16	
United Spirits (Buy, Rs560)	17	

## CHANGE IN ESTIMATES

	FY09/CY08			FY10/CY09		
	NEW EPS EST	% CHG.	YOY GR. (%)	NEW EPS EST	% CHG.	YOY GR. (%)
Asian Paints	39.1	-21.6	-10.2	46.7	-19.1	19.6
United Spirits	33.7	-29.2	0.0	47.5	-29.7	40.9
Godrej Consumer	6.2	-12.5	-11.9	8.3	-11.1	33.1
GSK Consumer	44.8	4.1	15.8	53.9	1.9	20.4

Source: MOSL

universe outperformed others at the operating profit level with EBITDA growing by 16% as against decline of 1.6% for small size and 27.1% for mid caps. EBITDA margin erosion for mid size was the highest at 639bp as against a decline of 240bp in small size and expansion of 44bp in large size.

**Slackening volume growth a concern; margins set to expand; maintain selective approach:** Although long term growth prospects for FMCG companies continue to remain positive, the short term outlook remains uncertain given the sluggish volume growth. We believe companies would pass on the benefit of lower raw material prices to revive the volume growth through sales promotion, offers and discounts. We believe initiatives taken by the companies to boost volume growth would restrict sharp expansion in operating margins. We are already witnessing price corrections/ promotions in toilet soaps and detergents; the trend is expected to catch up in a few more product categories. We continue to remain selective in our approach with bias towards companies with presence in categories with high consumer switching costs, strong pricing power and high entry barriers. Our top picks are: **ITC** in large size, **Nestle** in mid size and **Marico** in small size.

FMCG COMPANIES: SUMMARIZED PERFORMANCE (RS M)

	SALES			EBITDA			EBITDA MARGIN (%)			PAT		
	DEC-07	DEC-08	CHG (%)	DEC-07	DEC-08	CHG (%)	DEC-07	DEC-08	CHG (BP)	DEC-07	DEC-08	CHG (%)
<b>Large size</b>												
Hind. Unilever	36,874	43,077	16.8	5,642	6,931	22.8	15.3	16.1	79	5,540	6,101	10.1
ITC	34,580	38,333	10.9	11,997	13,527	12.8	34.7	35.3	59	8,307	9,032	8.7
<b>Total</b>	<b>71,454</b>	<b>81,410</b>	<b>13.9</b>	<b>17,639</b>	<b>20,458</b>	<b>16.0</b>	<b>24.7</b>	<b>25.1</b>	<b>44</b>	<b>13,847</b>	<b>15,133</b>	<b>9.3</b>
<b>Mid size</b>												
Asian Paints	11,776	13,210	12.2	1,856	1,093	-41.1	15.8	8.3	-748	1,189	596	-49.8
United Spirits	8,890	10,293	15.8	1,708	1,063	-37.8	19.2	10.3	-888	882	306	-65.3
Dabur	6,497	7,787	19.9	1,163	1,290	10.9	17.9	16.6	-134	945	1,085	14.8
<b>Total</b>	<b>27,163</b>	<b>31,289</b>	<b>15.2</b>	<b>4,727</b>	<b>3,446</b>	<b>-27.1</b>	<b>17.4</b>	<b>11.0</b>	<b>-639</b>	<b>3,015</b>	<b>1,987</b>	<b>-34.1</b>
<b>Small size</b>												
Colgate	3,675	4,192	14.1	611	746	22.0	16.6	17.8	116	605	777	28.6
Britannia	6,564	8,183	24.7	588	656	11.6	9.0	8.0	-94	488	526	7.7
Godrej Consumer	2,728	3,421	25.4	568	483	-15.0	20.8	14.1	-671	430	401	-6.9
GSK Consumer	2,841	3,334	17.3	357	402	12.7	12.6	12.1	-50	275	326	18.5
Marico	5,062	6,228	23.0	643	791	23.2	12.7	12.7	2	428	509	19.0
Tata Tea	11,849	13,009	9.8	2,112	1,722	-18.4	17.8	13.2	-458	821	821	-0.1
<b>Total</b>	<b>32,719</b>	<b>38,367</b>	<b>17.3</b>	<b>4,879</b>	<b>4,801</b>	<b>-1.6</b>	<b>14.9</b>	<b>12.5</b>	<b>-240</b>	<b>3,047</b>	<b>3,359</b>	<b>10.3</b>
<b>Grand Total</b>	<b>131,336</b>	<b>151,066</b>	<b>15.0</b>	<b>27,245</b>	<b>28,705</b>	<b>5.4</b>	<b>20.7</b>	<b>19.0</b>	<b>-174</b>	<b>19,909</b>	<b>20,479</b>	<b>2.9</b>

Source: MOSL

Asian Paints reported steep decline in sales from 30.2% in 2QFY09 to 12.2% in 3QFY09

EBITDA margin of United Spirits, Asian Paints, and Godrej Consumer declined by more than 650bp

Large size companies EBITDA increased by 16% as against 27% decline in mid size and 1.6% decline in small size

Gross margins declined  
394bp for companies under  
MOSL universe

Colgate, HUL and ITC  
reported margin expansion  
due to operating leverage

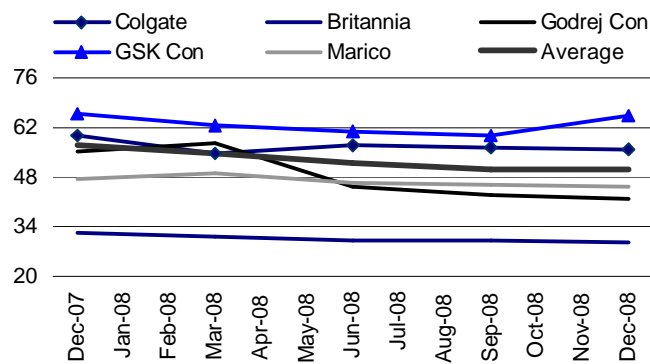
COST CONTROL RESISTS MARGIN DECLINE

	GROSS MARGINS CHG (BPS)	EBITDA MARGINS CHG (BPS)	OPERATING LEVERAGE CHG (BPS)
<b>Large size</b>			
HUL	-233	79	312
ITC	-161	59	220
<b>Total</b>	<b>-217</b>	<b>44</b>	<b>261</b>
<b>Large size</b>			
Asian Paints	-520	-748	-228
United Spirits	-964	-888	76
Dabur	-443	-133	309
<b>Total</b>	<b>-832</b>	<b>-639</b>	<b>194</b>
<b>Small size</b>			
Colgate	-377	116	493
Britannia	-290	-94	197
Godrej Con	-1,374	-671	703
GSK Con	-44	-50	-6
Marico	-214	2	216
Tata Tea	-649	-458	191
<b>Total</b>	<b>-554</b>	<b>-240</b>	<b>315</b>
<b>Grand Total</b>	<b>-394</b>	<b>-174</b>	<b>220</b>

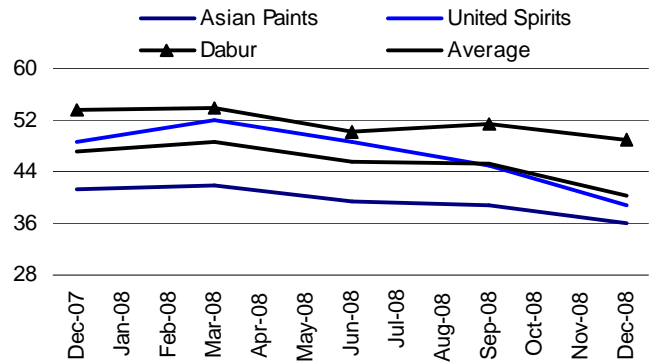
Source: Company/MOSL

GROSS MARGIN TREND

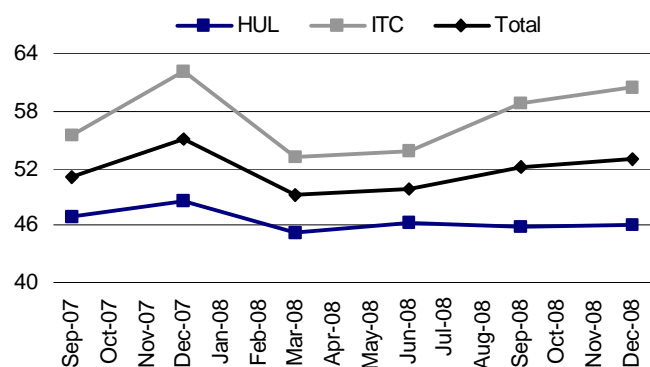
SMALL SIZE COMPANIES



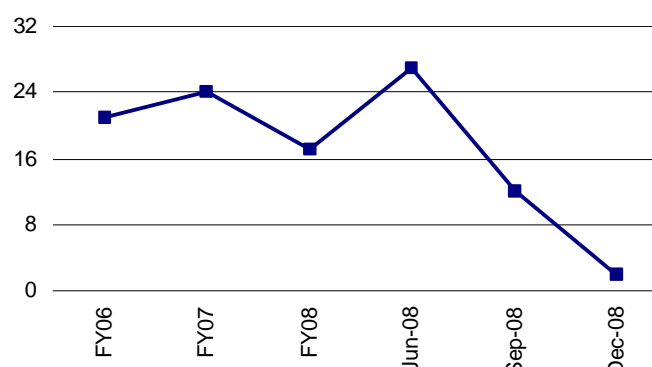
MID SIZE COMPANIES



LARGE SIZE COMPANIES



ADVERTISING SPEND GROWTH DECLINE QOQ (%)



Source: MOSL

### Fewer product launches lead to lower ad spends

December 2008 witnessed fewer New Product Development (NPD) vis-à-vis the last quarter. Uncertain outlook due to slow down in the economy would be the key reason for the same. Notable launches during the quarter included Vivel Ultrapro by ITC (competing against Head and Shoulders and Clinic All Clear) and Saffola Zest, Saffola's brand extension to the snacks market (Category size Rs 30bn, 25% CAGR). HUL launched new range of Dove deodorants, while GSK consumer launched ActivGrow targeting 2-6 year olds.

#### PRODUCT SEGMENTS

COMPANY	CATEGORY	Q3FY09	Q2FY09
<b>HUL</b>	Toilet Soaps	-	Lux Almond & Cream
	Deo	Dove	Axe Dark temptations
	Shampoo	-	Clinic All Clear Soft and Silky
	Detergents	-	Rin Matic
	Foods	-	Knorr Ready to Eat
<b>Dabur</b>	Oral Care	Babool Gel	-
	Skin care	-	Gulabari Hydrating and Rose Cream
	Hair Care	-	Vatika Conditioners
	Home Care	Odonil Gel	Dazzl Surface cleaners
<b>GCPL</b>	Soaps	-	Cinthol Deo Musk
	Hair Dye	-	Hair Expert
<b>Asian Paints</b>	Exterior Paints	-	Apex Tile Guard
	Interior	-	Apcolite Premium Semi Gloss
ITC	Soaps	-	Vivel Soft & Silky
	Shampoo	Vivel Ultra Pro	Superia Maxi Protect Health Shampoo
	Snacks	-	Bingo Hatke Jhatke
<b>Britannia</b>	Biscuits	-	Nutrichoice 5 grain Biscuits
<b>Marico</b>	Snacks	-	-
	Rice	-	-
	Hair Care	Parachute Advanced Revitalizing oil	-

*New launches squeezed out*

Source: MOSL

#### QOQ VOLUME GROWTH SLOWING DOWN

VOLUME GROWTH	DEC-08	DEC-07	SEP-08	QOQ TREND
Hindustan Unilever	2.3	8.4	6.8	↓
ITC (cigarette)	-3.5	-1.0	-2.0	↓
Asian Paints	2.0	27.0	19.0	↓
United Spirits	19.0	13.6	15.0	↑
Colgate	14.0	8.0	11.1	↑
GSK Consumer	13.0	2.0	16.0	↓
Marico				
Parachute	9.0	8.0	12.0	↓
Hair Oil	14.0	NA	14.0	↔
Saffola	3.0	19.0	9.0	↓
Godrej Consumer				
Soaps	19.0	9.0	14.0	↑
Hair Color	7.0	6.0	-4.0	↑
Dabur	14.0	NA	13.0	↑

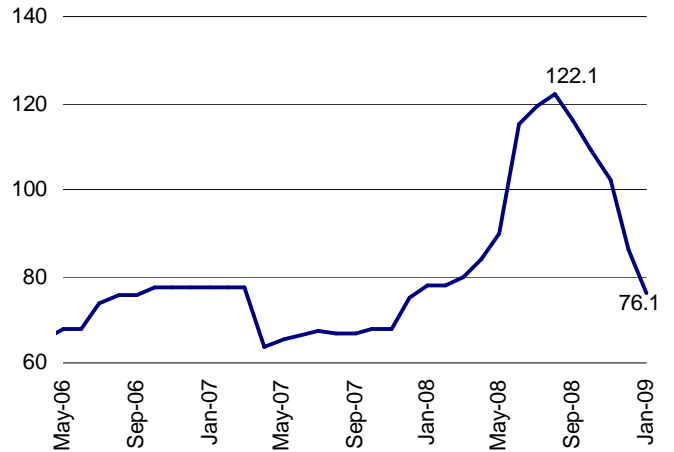
Source: MOSL

KEY RAW MATERIALS: PRICE TREND

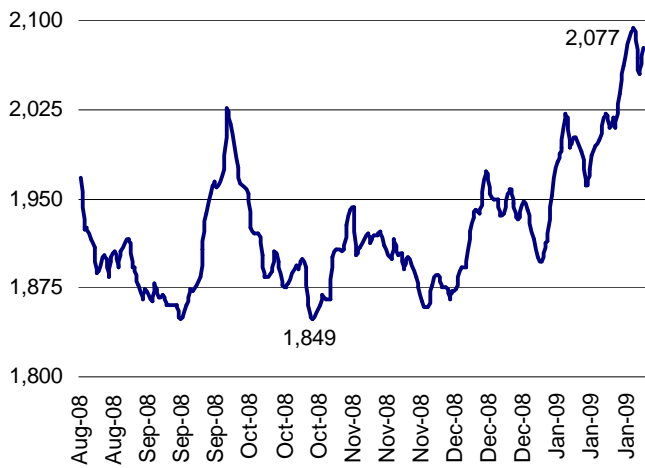
PALM OIL PRICES (MALAYSIAN RINGIT/MT) - 30% UP FROM THE BOTTOM



LAB PRICES (RS/KG) - 30% DECLINE FROM PEAK



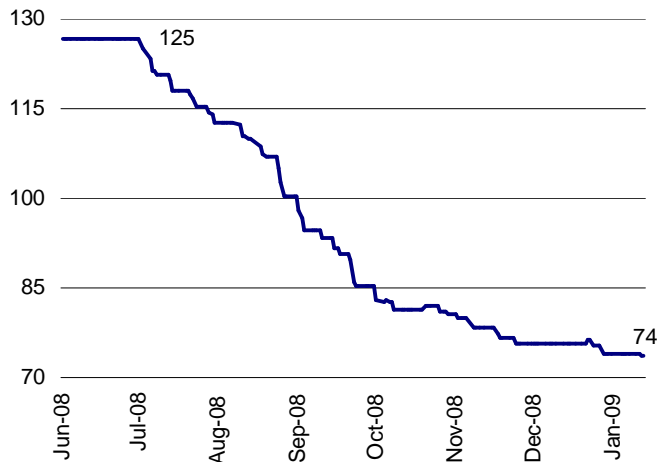
SUGAR PRICES (RS/QTL) - 40% DECLINE IN PRODUCTION



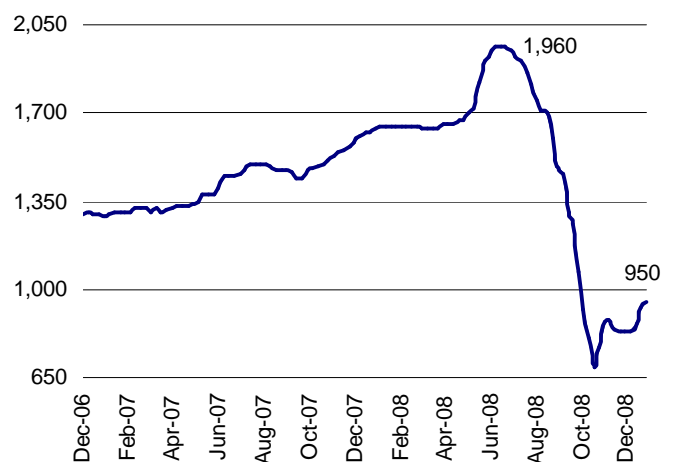
COPRA PRICES (RS/QTL) - PRICES TO DECLINE FURTHER IN MARCH-08



SMP PRICES (RS/KG) - SHARP DECLINE FROM PEAK



HDPE (PACKAGING MATERIAL, USD/MT) - NOSEDIVE



Source: Bloomberg/Industry/Motilal Oswal Securities

**Top-2 Buys****ITC Ltd**

- Adverse regulatory environment in cigarettes is near its peak (only pictorial warnings implementation left); 18% PBIT growth in 3QFY09 has been encouraging. Demand resilience and high entry barriers will ensure steady double digit profit growth.
- Poor performance from Hotels business is priced in. 2.5% market share in toilet soaps and rising consumer acceptability in skin care is positive due to 20-25% EBIDTA margin and market size of more than US\$2b.
- Our revised estimates for FY09 and FY10 are Rs8.7 (v/s Rs9) and Rs10.2 (v/s Rs10.4) respectively. The stock trades at 20.8x FY09E EPS of Rs8.7 and 17.8x FY10E EPS of Rs10.2.

**Nestle India**

- Nestle India is best placed to ride on the expected growth in processed foods market due to strong technology of parent and focus on processed foods.
- Input cost pressures are expected to sustain in the near term due to strong prices of sugar and steady trend in liquid milk (45% of input cost), but dominant market share and strong brands will prevent margin erosion for the company.
- We expect Nestle to sustain double digit volume growth and 25% PAT growth for CY07-10. The stock trades at attractive valuations of 26.3x FY09 and 20.6x FY10 earnings.

**Top-2 Switches****Hindustan Unilever**

- HUL volume growth has declined from 6.8% in 3QCY08 to 2.3% in 4QCY08 due to lower consumer off-take resulting from sharp increase in prices and grammage reduction in key brands. We expect coming 12 months volume growth to decline from 7% to 4.5%.
- HUL has lost market share across product categories (except detergents). We are concerned with 470bp market share loss in toilet soaps in past 12 months.
- We expect increase in sales promotions and price reduction across categories. We expect 16.7% PAT growth in FY10 (comparable quarters), which makes the stock fairly priced at 23.6x FY10 EPS of Rs11.2.

**Asian Paints**

- Asian Paints has seen sharp deacceleration in volume growth from 19% in 2QFY09 to flat volumes in 3QFY09 due to dealer destocking and poor Diwali sales. Fresh painting (20% of sales) would get impacted by the slowdown in real estate, while repainting (being a discretionary spend) would get postponed under the current environment.
- Although we expect profit margins to increase on QoQ basis, high cost material inventory, increase in overheads due to capacity expansions and lower volume growth will ensure that EBIDTA margin would not reach FY08 level of 14.5% in the medium term.
- The stock trades at 19.7x FY09E and 16.5x FY10E.

**COMPARATIVE VALUATION**

	CMP		T.P.	UPSIDE	EPS (RS)		P/E (X)		EV/EBITDA (X)		ROE (%)	
	(RS)	RECO			(RS)	(%)	FY09E	FY10E	FY09E	FY10E	FY09E	FY10E
Asian Paints	769	Neutral	934	21.5	39.1	46.7	19.7	16.5	11.9	9.6	31.5	31.3
Britannia Industries	1,381	Buy	1,782	29.0	91.3	118.8	15.1	11.6	10.7	7.9	24.0	25.7
Colgate	417	Buy	451	8.1	20.3	23.7	20.5	17.6	21.5	18.3	154.2	149.5
Dabur	88	Neutral	93	6.0	4.4	5.2	20.1	17.0	16.6	13.0	44.9	41.3
Glaxo Smithkline*	600	Buy	809	34.8	44.8	53.9	13.4	11.1	8.9	7.1	25.5	25.9
Godrej Consumer	130	Buy	140	8.1	6.2	8.3	20.9	15.7	16.2	12.0	27.5	33.5
Hind. Unilever#	264	Neutral	246	-6.8	11.3	11.2	23.3	23.6	20.0	19.8	128.1	100.3
ITC	181	Buy	210	16.0	8.7	10.2	20.8	17.8	13.0	11.2	23.9	24.3
Marico	58	Buy	64	10.9	3.0	3.6	19.3	16.2	12.9	10.7	41.0	35.3
Nestle*	1,480	Buy	1,793	21.2	56.4	71.7	26.3	20.6	17.0	13.3	119.3	118.2
Tata Tea	563	Neutral	666	18.3	50.9	66.6	11.1	8.5	4.1	3.2	8.1	10.0
United Spirits	560	Buy	950	69.6	33.7	47.5	16.6	11.8	9.9	8.2	12.7	15.1

\* Companies are December ending. Read FY09 as CY08; # Change in accounting period from December to March

Source: MOSL

## Asian Paints

STOCK INFO.	BLOOMBERG
BSE Sensex: 9,149	APNT IN
	REUTERS CODE
S&P CNX: 2,784	ASPN.BO

3 February 2009

Neutral

Previous Recommendation: Buy

Rs769

Equity Shares (m)	95.9
52-Week Range	1,314/700
1,6,12 Rel. Perf. (%)	-6/1/15
M.Cap. (Rs b)	73.8
M.Cap. (US\$ b)	1.5

YEAR	NET SALES	Adj.PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/07A	36,700	2,864	29.9	30.1	25.8	9.5	36.8	49.2	2.0	15.4
3/08A	44,043	4,175	43.5	45.8	17.7	7.5	42.5	57.6	1.6	11.0
3/09E	53,086	3,747	39.1	-10.2	19.7	6.2	31.5	47.4	1.4	11.8
3/10E	56,445	4,480	46.7	19.6	16.5	5.2	31.3	48.2	1.3	9.5

## 3QFY09 – Below expectation

- Net Sales increased 12% YoY as volumes were flat. Poor Diwali sales pushed up dealer inventory and subsequent de-stocking led to lower volume growth.
- Gross margin declined 520bp due to sharp increase in prices of titanium dioxide, high cost crude based inventory and forward cover of key raw materials at higher prices.
- The company has affected ~7% price cut during the quarter to stimulate the slackening demand.
- International operations grew ~20% YoY in 3QFY09, with sustained demand from Middle East (up ~40%) and South Asia.

## Outlook

- The management has given a cautious outlook on demand going forward. Worsening credit situation can impact Asian Paints on both counts - fresh painting (slowing real estate and construction activity) as well as repainting activity (being a discretionary spend).
- 4QFY09 margins will be under pressure as high cost inventory will last till mid of February. However, margin pressures are expected to subside as prices of crude-linked inputs decline.
- We are lowering volume growth estimates for FY09 from 13.5% to 11% and from 15% to 9% for FY10 due to lower discretionary spend. FY09 and FY10 EPS of Asian Paints have been revised downwards by 22% and 27% due to uncertain demand outlook and sustained pressure on margins for next 2-3 quarters. The stock trades at 19.7x FY09E and 16.5x FY10E. Downgrade to **Neutral**.

## QUARTERLY PERFORMANCE

(Rs Million)

Y/E MARCH	FY08				FY09				FY08	FY09E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
<b>Net Sales</b>	<b>9,605</b>	<b>11,332</b>	<b>11,776</b>	<b>11,330</b>	<b>12,420</b>	<b>14,753</b>	<b>13,210</b>	<b>12,703</b>	<b>44,043</b>	<b>53,086</b>
Change (%)	23.6	13.5	25.9	18.2	29.3	30.2	12.2	12.1	20.0	20.5
Total Expenditure	8,251	9,516	9,921	9,773	10,698	12,665	12,117	<b>11,316</b>	37,461	46,795
<b>EBITDA</b>	<b>1,354</b>	<b>1,816</b>	<b>1,856</b>	<b>1,557</b>	<b>1,722</b>	<b>2,088</b>	<b>1,093</b>	<b>1,388</b>	<b>6,582</b>	<b>6,291</b>
Margin (%)	14.1	16.0	15.8	13.7	13.9	14.2	8.3	10.9	14.9	11.9
Change (%)	30.8	35.3	50.3	33.1	27.2	15.0	-41.1	-10.9	37.7	-4.4
Interest	49	69	54	39	55	68	66	27	212	216
Depreciation	141	146	150	154	154	186	202	173	592	716
Other Income	89	265	132	134	103	179	122	130	620	534
<b>Operational PBT</b>	<b>1,252</b>	<b>1,866</b>	<b>1,783</b>	<b>1,497</b>	<b>1,616</b>	<b>2,014</b>	<b>946</b>	<b>1,318</b>	<b>6,399</b>	<b>5,893</b>
Non Recurring Income	4	-67	-1	-21	-6	-9	-6	151	-84	131
<b>PBT</b>	<b>1,256</b>	<b>1,798</b>	<b>1,783</b>	<b>1,476</b>	<b>1,610</b>	<b>2,005</b>	<b>940</b>	<b>1,469</b>	<b>6,314</b>	<b>6,024</b>
Tax	422	597	537	477	519	634	291	471	2,034	1,915
Effective Tax Rate (%)	33.6	33.2	30.1	32.3	32.2	31.6	30.9	32.1	32.2	31.8
<b>PAT</b>	<b>834</b>	<b>1,202</b>	<b>1,246</b>	<b>999</b>	<b>1,091</b>	<b>1,370</b>	<b>650</b>	<b>998</b>	<b>4,281</b>	<b>4,109</b>
Minority Interest	15	63	58	54	29	55	60	87	189	230
<b>Adjusted PAT</b>	<b>815</b>	<b>1,206</b>	<b>1,189</b>	<b>966</b>	<b>1,068</b>	<b>1,324</b>	<b>596</b>	<b>760</b>	<b>4,176</b>	<b>3,747</b>
Change (%)	34.8	45.1	66.9	57.2	31.0	9.8	-49.8	-21.4	45.7	-10.3

E: MOSL Estimates

## Britannia Industries

STOCK INFO.	BLOOMBERG
BSE Sensex: 9,149	BRIT IN
	REUTERS CODE
S&P CNX: 2,784	BRIT.BO

3 February 2009

Buy

Previous Recommendation: Buy

Rs1,382

Equity Shares (m)	23.9
52-Week Range	1,650/991
1,6,12 Rel. Perf. (%)	12/39/44
M.Cap. (Rs b)	33.0
M.Cap. (US\$ b)	0.7

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
03/07A	21,993	1,076	47.6	-22.2	29.0	5.4	18.5	18.7	1.3	23.1
03/08A	25,848	1,911	84.5	77.4	16.3	4.4	26.7	27.2	1.2	12.9
03/09E	31,567	2,151	91.3	8.1	15.1	3.7	24.0	27.1	0.9	10.5
03/10E	35,816	2,798	118.8	30.1	11.6	3.0	25.7	30.0	0.7	7.7

## 3QFY09 – In line

- Net sales grew 24.7% YoY on the back of high single digit volume growth and improved realization.
- Gross margin declined 330bp as the price hikes taken were insufficient to ward off the impact of rising input cost. Major inputs like wheat and sugar have witnessed sharp increase leading to heightened margin pressures for Britannia.
- EBITDA margin decline was arrested to 80bp as cost control initiatives in ad spend (120bp), staff cost (50bp) and other expenditure (50bp) helped arrest the decline.
- Adj PAT grew 7.7% YoY to Rs526m.

## Outlook

- We expect raw material pressure to sustain on account of increase in prices of wheat and sugar, though decline in prices of packaging material and vegetable oil would provide solace.
- The company trades at 15.1x FY09E EPS of Rs91.3 and 11.6x FY10E EPS of Rs118.8. Resolution of management disputes and increase in payout ratio could re-rate the stock. Maintain **Buy**.

## QUARTERLY PERFORMANCE

(Rs Million)

Y/E MARCH	FY08				FY09				FY08	FY09E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
<b>Net Sales</b>	<b>5,769</b>	<b>6,588</b>	<b>6,564</b>	<b>6,928</b>	<b>6,933</b>	<b>8,385</b>	<b>8,183</b>	<b>8,066</b>	<b>25,848</b>	<b>31,567</b>
YoY Change (%)	19.5	19.8	15.7	15.6	20.2	27.3	24.7	16.4	17.5	22.1
Total Exp	5,323	5,902	5,976	6,342	6,357	7,715	7,527	7,267	23,530	28,865
<b>EBITDA</b>	<b>446</b>	<b>686</b>	<b>588</b>	<b>586</b>	<b>576</b>	<b>671</b>	<b>656</b>	<b>799</b>	<b>2,318</b>	<b>2,702</b>
Margins (%)	7.7	10.4	9.0	8.5	8.3	8.0	8.0	9.9	9.0	8.6
Depreciation	69	72	73	77	79	82	86	91	291	337
Interest	5	29	30	14	35	44	30	17	97	126
Other Income	108	58	63	266	79	167	73	39	502	359
<b>PBT</b>	<b>480</b>	<b>643</b>	<b>548</b>	<b>761</b>	<b>541</b>	<b>712</b>	<b>614</b>	<b>731</b>	<b>2,432</b>	<b>2,598</b>
Tax	88	127	60	138	83	116	88	160	413	447
Rate (%)	18.3	19.8	10.9	18.1	15.3	16.2	14.3	21.9	17.0	17.2
<b>PAT</b>	<b>392</b>	<b>516</b>	<b>488</b>	<b>623</b>	<b>458</b>	<b>597</b>	<b>526</b>	<b>570</b>	<b>2,019</b>	<b>2,151</b>
YoY Change (%)	20.2	116.8	142.8	70.2	16.8	15.6	7.7	-8.5	18.4	6.5
Extraordinary Expenses	-31	-31	-34	-13	-55	-64	-64	44	-109	-139
<b>Reported PAT</b>	<b>361</b>	<b>485</b>	<b>454</b>	<b>610</b>	<b>403</b>	<b>533</b>	<b>462</b>	<b>615</b>	<b>1,911</b>	<b>2,012</b>

E: MOSL Estimates



## Colgate Palmolive

STOCK INFO.	BLOOMBERG
BSE Sensex: 9,149	CLGT IN
	REUTERS CODE
S&P CNX: 2,784	COLG.BO

3 February 2009

Buy

Rs417

*Previous Recommendation: Buy*

Equity Shares (m)	136.0
52-Week Range (Rs)	480/340
1,6,12 Rel. Perf. (%)	11/42/49
M.Cap. (Rs b)	56.7
M.Cap. (US\$ B)	1.2

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
03/07A	12,951	1,518	11.2	16.1	37.3	160.9	55.0	54.5	3.3	28.3
03/08A	14,734	2,318	17.0	52.7	24.5	34.9	104.6	103.3	3.7	24.2
03/09E	16,865	2,764	20.3	19.3	20.5	28.9	154.2	151.6	3.2	21.6
03/10E	19,210	3,227	23.7	16.8	17.6	24.1	149.5	147.5	2.8	18.3

**3QFY09 - Above expectation**

- Volume growth was robust with toothpaste reporting 14% volume growth YoY.
- The company maintained its leadership in oral care with market share gains across categories. Market share in toothpaste increased 120bp to 49.6% (January-December 2008). In toothbrush category, the company increased market share by 2.8% to 38%. Market share in toothpowder also continued its uptick on the back of encouraging response to Colgate Lal Dant manjan.
- Colgate's gross margin contracted 380bp due to high input costs on account of increase in prices of sorbitol oil and calcium carbonate. However, lower ad spend (620bp) as well as staff cost (80bp) enabled EBITDA margin expansion of 120bp to 17.8% (est. 17.1%).

**Outlook**

- Strong volume growth in the inflationary environment is a positive. Launch of Red Toothpowder has helped report growth in toothpowder as well, although toothpaste market is already witnessing some down trading.
- We have an EPS forecast of Rs20.3 for FY09 and Rs23.7 for FY10. The stock trades at 20.5x FY09E and 17.6x FY10E with dividend yield of 4.3%. Maintain **Buy**.

**QUARTERLY PERFORMANCE**

(Rs Million)

Y/E MARCH	FY08				FY09				FY08	FY09E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
<b>Net Sales</b>	<b>3,507</b>	<b>3,639</b>	<b>3,675</b>	<b>3,913</b>	<b>4,076</b>	<b>4,125</b>	<b>4,192</b>	<b>4,471</b>	<b>14,734</b>	<b>16,865</b>
YoY Change (%)	13.3	13.7	14.0	14.0	16.2	13.4	14.1	14.3	13.8	14.5
Total Exp	2,892	3,074	3,064	3,408	3,415	3,614	3,447	3,861	12,448	14,336
<b>EBITDA</b>	<b>614</b>	<b>564</b>	<b>611</b>	<b>506</b>	<b>661</b>	<b>512</b>	<b>746</b>	<b>611</b>	<b>2,286</b>	<b>2,529</b>
Margins (%)	17.5	15.5	16.6	12.9	16.2	12.4	17.8	13.7	15.5	15.0
Depreciation	44	49	51	55	55	56	55	57	198	223
Interest	3	6	2	3.6	4	5	1	10	14	20
Other Income	210	196	228	214	312	270	228	215	848	1,024
<b>PBT</b>	<b>777</b>	<b>705</b>	<b>787</b>	<b>662</b>	<b>913</b>	<b>721</b>	<b>918</b>	<b>758</b>	<b>2,921</b>	<b>3,310</b>
Tax	158	158	182	105	194	86	140	126	603	546
Rate (%)	20.3	22.4	23.2	15.9	21.3	11.9	15.3	16.6	20.7	16.5
<b>Adjusted PAT</b>	<b>619</b>	<b>547</b>	<b>605</b>	<b>556</b>	<b>719</b>	<b>635</b>	<b>777</b>	<b>632</b>	<b>2,318</b>	<b>2,764</b>
YoY Change (%)	71.6	8.3	20.1	11.6	16.2	16.0	28.6	13.7	52.7	19.3
<b>Reported PAT</b>	<b>609</b>	<b>547</b>	<b>605</b>	<b>556</b>	<b>719</b>	<b>635</b>	<b>777</b>	<b>632</b>	<b>2,318</b>	<b>2,764</b>
YoY Change (%)	68.8	136.2	20.1	9.9	18.1	16.0	28.6	13.7	44.6	19.3

E: MOSL Estimates

## Dabur India

STOCK INFO.	BLOOMBERG
BSE Sensex: 9,149	DABUR IN
	REUTERS CODE
S&P CNX: 2,784	DABU.BO

3 February 2009

Neutral

Previous Recommendation: Neutral

Rs88

Equity Shares (m)	864.0
52-Week Range	115/60
1,6,12 Rel. Perf. (%)	12/35/39
M.Cap. (Rs b)	76.0
M.Cap. (US\$ b)	1.6

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
03/07A	20,431	2,269	3.3	24.5	26.8	15.8	58.8	52.0	3.7	21.8
03/08A	23,610	3,337	3.9	17.7	22.8	12.3	54.0	55.6	3.1	18.1
03/09E	27,969	3,779	4.4	13.3	20.1	9.0	44.9	47.8	2.7	16.8
03/10E	32,683	4,478	5.2	18.5	17.0	7.0	41.3	45.9	2.3	13.2

## 3QFY09 – In line

- Dabur reported volume growth of 14.5% in 3QFY09, sustaining volume growth in challenging environment. Consumer Care division grew by 14.4% while Consumer Health Care posted a 17.7% growth during the quarter. The international business group reported sustained growth momentum, with GCC and Egypt growing at 47% and 85%.
- During 9MFY09, Chyawanprash grew by 9.2% YoY, while the Hair Oil portfolio reported growth of 19.7%. Oral care continued to drag growth rates, with 3.7% YoY growth during 9MFY09. Babool has failed to make much headway despite change in price value equation as it grew by just 3.6%.
- Gross margin declined 440bp due to higher input cost, especially Hydrocarbon, Honey, Sugar and Copra. However, lower ad spend (190bp) and other expenditure (110bp) helped arrest EBITDA margin decline to 130bp.
- Retail venture newU continued to pressurize the overall profitability of the firm with 9MFY09 losses being ~Rs158m. Adjusted for retail losses, EBITDA margin is flat (6bp decline) with consolidated PAT growth being 17.7%.

## Outlook

- We are positive on the core business of Dabur under the Herbal platform. Management indicated that major growth drivers in near term would be sustained momentum in rural India as well as strong growth in international business (led by marked presence in new countries and categories).
- EBITDA margin would remain under pressure as we believe newU would have a long gestation period and would continue to impact profitability.
- We expect gross margin to improve 70bp in FY10, which would provide 18% PAT growth. The stock trades at 20.1x FY09E of Rs4.4 and 17x FY10E of Rs5.2. Maintain **Neutral**.

## QUARTERLY PERFORMANCE

(Rs Million)

Y/E MARCH	FY08				FY09				FY08	FY09
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
<b>Net Sales</b>	<b>5,208</b>	<b>5,841</b>	<b>6,497</b>	<b>6,065</b>	<b>6,040</b>	<b>6,912</b>	<b>7,787</b>	<b>7,231</b>	<b>23,610</b>	<b>27,969</b>
YoY Change (%)	33.0	5.4	14.7	14.3	16.0	18.3	19.9	19.2	15.6	18.5
Total Exp	4,416	4,682	5,334	5,087	5,168	5,664	6,497	6,123	19,517	23,452
<b>EBITDA</b>	<b>792</b>	<b>1,160</b>	<b>1,163</b>	<b>978</b>	<b>871</b>	<b>1,248</b>	<b>1,290</b>	<b>1,108</b>	<b>4,093</b>	<b>4,517</b>
Margins (%)	15.2	19.9	17.9	16.1	14.4	18.1	16.6	15.3	17.3	16.1
Depreciation	102	98	105	117	117	123	109	124	421	473
Interest	47	42	44	35	40	40	69	29	168	178
Other Income	77	76	49	138	120	145	114	119	340	498
<b>PBT</b>	<b>721</b>	<b>1,096</b>	<b>1,064</b>	<b>964</b>	<b>834</b>	<b>1,230</b>	<b>1,226</b>	<b>1,074</b>	<b>3,844</b>	<b>4,364</b>
Tax	100	139	139	131	127	156	152	154	507	589
Rate (%)	13.9	12.7	13.0	13.6	15.2	12.7	12.4	14.4	13.2	13.5
Minority Interest	-1	-8	-20	29	1	-4	-11	10	-1	-4
<b>Adjusted PAT</b>	<b>622</b>	<b>966</b>	<b>945</b>	<b>804</b>	<b>707</b>	<b>1,078</b>	<b>1,085</b>	<b>910</b>	<b>3,337</b>	<b>3,779</b>
YoY Change (%)	29.0	29.6	19.2	4.5	13.5	11.6	14.8	13.1	17.9	13.3
Extraordinary Inc/(Exp)	0	0	0	8	0	0	0	10	10	10
<b>Reported PAT</b>	<b>622</b>	<b>966</b>	<b>945</b>	<b>796</b>	<b>707</b>	<b>1,078</b>	<b>1,085</b>	<b>900</b>	<b>3,327</b>	<b>3,769</b>

E: MOSL Estimates

## GlaxoSmithKline Consumer

STOCK INFO.	BLOOMBERG
BSE Sensex: 9,149	SKB IN
	REUTERS CODE
S&P CNX: 2,784	GLSM.BO

3 February 2009

Buy

Rs600

Previous Recommendation: Buy

Equity Shares (m)	42.1										
52-Week Range (Rs)	766/480										
1,6,12 Rel. Perf. (%)	16/32/45										
M.Cap. (Rs b)	25.3										
M.Cap. (US\$ b)	0.5										

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
12/06A	11,079	1,270	30.2	19.5	19.9	4.6	23.4	35.8	2.0	12.2
12/07A	12,778	1,626	38.7	28.1	15.5	3.9	25.2	38.6	1.7	9.5
12/08E	15,428	1,884	44.8	15.8	13.4	3.4	25.5	39.5	1.4	8.8
12/09E	17,833	2,267	53.9	20.4	11.1	2.9	25.9	39.8	1.2	6.9

## 4QCY09 – Above expectation

- Net sales growth of 17% YoY comprised 13% volume growth and 4% realization growth. Horlicks volume grew 13% (16% in 3QCY08) in 4Q, while Boost reported volume growth of 10% YoY (6% in 3QCY08). This was highest ever volume growth during fourth quarter.
- Gross margin declined 50bp YoY due to the sustained increase prices of select inputs like liquid milk (up 10-15%), sugar and malted barley.
- The company has launched Activ Grow targeting infant/kids in the age group of 2-5 years. The management has indicated launch of variants of Horlicks under value for money segment.

## Outlook

- Management has indicated new launches which will increase the ad spends by 140bp in CY09.
- GSK has undertaken 5.5% average price increase effective Jan1,2009 which will enable 140bp increase in gross margins and 120bp increase in EBITDA margins in CY09.
- We estimate 20.4% PAT growth in CY09 (19% PAT CAGR from last 5 years). We are revising CY09 EPS estimates from Rs52.9 to Rs53.9. The stock trades at 13.4x CY08E EPS of Rs44.8 and 11.1x CY09E EPS of Rs53.9. We maintain **Buy**.

## QUARTERLY PERFORMANCE

(Rs Million)

Y/E DECEMBER	CY07				CY08				CY07	CY08
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
<b>Net Sales</b>	<b>3,265</b>	<b>3,156</b>	<b>3,516</b>	<b>2,841</b>	<b>4,106</b>	<b>3,764</b>	<b>4,225</b>	<b>3,334</b>	<b>12,778</b>	<b>15,428</b>
YoY Change (%)	17.9	17.8	16.6	7.3	25.8	19.3	20.2	17.3	14.9	20.7
Total Exp	2,641	2,571	2,839	2,484	3,309	3,218	3,594	2,932	10,535	13,052
<b>EBITDA</b>	<b>624</b>	<b>585</b>	<b>677</b>	<b>357</b>	<b>797</b>	<b>546</b>	<b>631</b>	<b>402</b>	<b>2,243</b>	<b>2,376</b>
Margins (%)	19.1	18.5	19.3	12.6	19.4	14.5	14.9	12.1	17.6	15.4
Depreciation	108	109	111	108	106	102	104	107	435	419
Interest	11	11	12	12	13	13	14	30	46	70
Other Income	139	166	209	175	186	262	265	242	689	955
<b>PBT</b>	<b>644</b>	<b>631</b>	<b>763</b>	<b>412</b>	<b>864</b>	<b>692</b>	<b>778</b>	<b>507</b>	<b>2,451</b>	<b>2,841</b>
Tax	221	208	258	137	298	231	247	181	824	957
Rate (%)	34.3	33.0	33.8	33.3	34.0	33.3	33.0	35.8	33.6	33.7
<b>PAT</b>	<b>423</b>	<b>423</b>	<b>505</b>	<b>275</b>	<b>566</b>	<b>462</b>	<b>530</b>	<b>326</b>	<b>1,626</b>	<b>1,884</b>
YoY Change (%)	22.8	36.8	39.4	9.1	33.8	9.1	5.0	18.5	28.4	15.8

E: MOSL Estimates

## Godrej Consumer Products

STOCK INFO.	BLOOMBERG
BSE Sensex: 9,149	GCPL IN
	REUTERS CODE
S&P CNX: 2,784	GOCP.BO

3 February 2009

Buy

Previous Recommendation: Buy

Rs130

Equity Shares (m)	258.1	YEAR	NET SALES	PAT	EPS	EPS	P/E	P/B V	ROE	ROCE	EV/	EV/
52-Week Range	146/94	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
1,6,12 Rel. Perf. (%)	0/46/66	03/07A	9,515	1,342	5.9	12.5	21.9	27.5	110.0	64.8	3.2	17.0
M.Cap. (Rs b)	33.6	03/08A	11,040	1,592	7.1	18.6	18.4	19.6	92.8	64.4	2.8	14.3
M.Cap. (US\$ b)	0.7	03/09E	13,806	1,602	6.2	-11.9	20.9	5.8	27.5	27.9	2.3	16.2
		03/10E	15,077	2,132	8.3	33.1	15.7	5.3	33.5	33.3	2.1	12.0

## 3QFY09 – Below expectation

- Consolidated sales increased 25.4% to Rs3.4b, marginally higher than our estimate of Rs3.3b, on account of strong growth both in toilet soaps and hair color.
- Toilet soap sales increased 23% on the back of strong volume growth of 19% and realization growth of 4% (10% volume growth and 21% value growth in 9MFY09). Management indicated higher volume growth has been on account of good response to two new launches- Cinthol Deo Musk and Godrej No1 Strawberry and Walnut.
- Hair color division reported a 14% YoY growth for 3QFY09 to Rs570m (6% degrowth in 2QFY09). Two initiatives in hair color have been particularly successful - 1) 11% price increase in Godrej Hair Dye; 2) increased trade margin and 3) the relaunch of Godrej Expert Hair Dye.
- Gross margin declined 1,370bp despite the fall in palm oil prices as the company had 4-5 months inventory.
- Performance in international operations has largely been in line, though Kinky's profitability continued to disappoint.

## Outlook

- Sustained traction in toilet soaps despite the aggressive launch of ITC's Superia is encouraging, though slower pick up in hair color and Kinky's profitability is a cause of concern.
- The management expects margins to significantly improve in 4QFY09 as the benefit of the lower palm oil prices gets accounted. Palm oil prices have fallen by 66% from their peak and are at 2-year lows.
- We are revising our EPS estimates for FY09 and FY10 on account of delayed accrual of the benefit of palm oil decline. Our EPS estimates stand revised to Rs6.2 (earlier Rs7.1) and Rs8.3 (earlier Rs9.3).
- The stock trades at 20.9x FY09E EPS and 15.7x FY10E EPS. Maintain **Buy**.

## QUARTERLY PERFORMANCE

Y/E MARCH	(Rs Million)								FY08	FY09E
	FY08				FY09					
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
<b>Net Sales</b>	<b>2,863</b>	<b>2,740</b>	<b>2,728</b>	<b>2,718</b>	<b>3,616</b>	<b>3,465</b>	<b>3,421</b>	<b>3,304</b>	<b>11,026</b>	<b>13,806</b>
YoY Change (%)	20.5	18.2	14.6	12.1	26.3	26.4	25.4	21.6	36.2	25.2
Total Exp	2,352	2,239	2,159	2,151	3,121	3,068	2,938	2,716	8,881	11,842
<b>EBITDA</b>	<b>511</b>	<b>501</b>	<b>568</b>	<b>567</b>	<b>496</b>	<b>397</b>	<b>483</b>	<b>588</b>	<b>2,145</b>	<b>1,964</b>
Margins (%)	17.9	18.3	20.8	20.9	13.7	11.5	14.1	17.8	19.5	14.2
Depreciation	44	46	48	43	55	46	51	65	182	217
Interest	35	32	29	34	-12	-47	-42	-15	129	-116
Other Income	13	14	15	-1	35	31	15	23	40	103
<b>PBT</b>	<b>445</b>	<b>437</b>	<b>506</b>	<b>489</b>	<b>487</b>	<b>428</b>	<b>489</b>	<b>562</b>	<b>1,875</b>	<b>1,966</b>
Tax	59	67	76	81	96	81	88	98	283	364
Rate (%)	13.1	15.2	15.0	16.6	19.7	18.9	18.1	17.5	15.1	18.5
<b>PAT</b>	<b>386</b>	<b>371</b>	<b>430</b>	<b>408</b>	<b>391</b>	<b>347</b>	<b>401</b>	<b>463</b>	<b>1,592</b>	<b>1,602</b>
YoY Change (%)	17.7	19.5	8.7	32.6	1.2	-6.3	-6.9	13.5	12.5	0.7
<b>Reported PAT</b>	<b>386</b>	<b>371</b>	<b>430</b>	<b>408</b>	<b>391</b>	<b>347</b>	<b>401</b>	<b>463</b>	<b>1,592</b>	<b>1,602</b>
E: MOSL Estimates										

## Hindustan Unilever

STOCK INFO.	BLOOMBERG
BSE Sensex: 9,149	HUVR IN
	REUTERS CODE
S&P CNX: 2,784	HLL.BO

3 February 2009

Neutral

Previous Recommendation: Neutral

Rs264

Equity Shares (m)	2,177.5
52-Week Range	267/185
1,6,12 Rel. Perf. (%)	15/50/76
M.Cap. (Rs b)	574.9
M.Cap. (US\$ b)	11.8

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
12/06A	121,034	15,397	7.0	17.5	37.8	21.4	56.5	67.0	4.6	33.7
12/07A	137,178	17,691	8.1	16.4	32.5	39.9	122.9	144.7	4.1	29.7
03/09E	207,133	24,690	11.3	39.6	23.3	29.8	128.1	154.1	2.6	20.4
03/10E	179,561	24,345	11.2	-1.4	23.6	23.7	100.3	121.3	3.0	20.2

# Change in accounting period from December to March

**4QCY09 – Below expectation**

- Volume growth declined QoQ to 2.3% (6.8% in 3QCY08). This has been the third consecutive fall from the double digit volume growth reported in 1QCY08 (10.4%).
- YoY market share declined in all key categories: toilet soaps (470bp), shampoo (180bp), skin creams (280bp). Detergents, however, reported 90bp improvement in market share.
- Soaps and detergent reported a 25% revenue growth while personal products reported muted growth of 11%. Beverages grew 24%, while exports declined 23% YoY.
- Gross margins have declined 230bp while EBIDTA margin increased by 80bp YoY due to 140bp decline in other expenses and 160bp lower advertising spend.

**Outlook**

- Rising inflation and pressure on consumer's wallet can lower volume growth in the coming quarters. We believe the threat from smaller players/unorganized players could be significant going forward.
- Declining market share in toilet soaps (4-5% volume growth) doesn't augur well as this segment contribute 24% to the sales and 33% to EBIT of HUL.
- Our FY09 EPS estimate stands at Rs11.3 and FY10 EPS estimate to Rs11.2. The stock trades at 23.3x FY09 and 23.6x FY10. Maintain **Neutral**.

**QUARTERLY PERFORMANCE**

(Rs Million)

Y/E DECEMBER	CY07				FY09					CY08	FY09
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	5Q		
<b>Net Sales (incl service inc)</b>	<b>31,843</b>	<b>34,814</b>	<b>33,646</b>	<b>36,874</b>	<b>37,939</b>	<b>42,157</b>	<b>40,279</b>	<b>43,077</b>	<b>43,681</b>	<b>163,452</b>	<b>207,133</b>
YoY Change (%)	13.8	12.9	9.7	16.8	19.1	21.1	19.7	16.8	15.1	19.2	51.0
Total Expenditure	28,224	29,801	29,170	31,232	33,861	36,642	35,516	36,147	38,124	142,165	180,289
<b>EBITDA</b>	<b>3,620</b>	<b>5,013</b>	<b>4,476</b>	<b>5,642</b>	<b>4,078</b>	<b>5,515</b>	<b>4,763</b>	<b>6,931</b>	<b>5,557</b>	<b>21,287</b>	<b>26,844</b>
YoY Change (%)	9.5	20.9	11.1	12.8	12.7	10.0	6.4	22.8	36.3	12.9	42.4
Margins (%)	11.4	14.4	13.3	15.3	10.7	13.1	11.8	16.1	12.7	13.0	13.0
Depreciation	329	333	353	369	363	379	393	406	412	1,541	1,952
Interest	51	110	68	26	35	87	0	0	0	122	0
Other Income	908	1,058	1,059	1,597	1,009	1,647	1,239	1,001	1,028	4,896	5,924
<b>PBT</b>	<b>4,147</b>	<b>5,628</b>	<b>5,114</b>	<b>6,844</b>	<b>4,689</b>	<b>6,695</b>	<b>5,610</b>	<b>7,526</b>	<b>6,296</b>	<b>24,520</b>	<b>30,816</b>
Tax	809	1,111	1,021	1,305	905	1,294	1,231	1,425	1,272	4,854	6,126
Rate (%)	19.5	19.7	20.0	19.1	19.3	19.3	21.9	18.9	20.2	19.8	19.9
<b>Adjusted PAT</b>	<b>3,339</b>	<b>4,517</b>	<b>4,093</b>	<b>5,540</b>	<b>3,784</b>	<b>5,401</b>	<b>4,379</b>	<b>6,101</b>	<b>5,024</b>	<b>19,666</b>	<b>24,690</b>
YoY Change (%)	13.6	19.1	6.9	14.6	13.3	19.6	7.0	10.1	32.8	11.2	39.6
Extraordinary Inc/(Exp)	590	414	-12	775	25	180	1,087	56	0	1,349	1,349
<b>Reported Profit</b>	<b>3,929</b>	<b>4,931</b>	<b>4,081</b>	<b>6,314</b>	<b>3,810</b>	<b>5,582</b>	<b>5,466</b>	<b>6,157</b>	<b>5,024</b>	<b>21,015</b>	<b>26,039</b>
YoY Change (%)	-11.3	29.6	-21.6	23.5	-3.0	13.2	34.0	-2.5	31.9	9.1	35.2

E: MOSL Estimates

ITC

STOCK INFO.	BLOOMBERG
BSE Sensex: 9,149	ITC IN
	REUTERS CODE
S&P CNX: 2,784	ITC.BO
Equity Shares (m)	3,762.2
52-Week Range	232/132
1,6,12 Rel. Perf. (%)	12/34/39
M.Cap. (Rs b)	681.0
M.Cap. (US\$ b)	14.0

3 February 2009

Buy

Previous Recommendation: Buy

Rs181

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
03/07A	121,643	27,000	7.2	13.2	25.2	6.5	25.9	35.4	5.3	16.2
03/08A	139,475	31,201	8.3	15.6	21.8	5.6	25.9	35.8	4.6	14.7
03/09E	159,026	32,748	8.7	5.0	20.8	5.0	23.9	33.7	4.0	13.2
03/10E	180,658	38,264	10.2	16.8	17.8	4.3	24.3	34.7	3.4	11.4

**3QFY09 – Below expectation**

- ✘ Cigarette volume declined by 3.5% (2% in 2QFY09) due to higher base effect in 3QFY08. PBIT margin grew by 184bp to 29.1% (27.8% in 2QFY09) due to full benefit of price increase.
- ✘ New FMCG sales grew 11% YoY, while PBIT losses increased by 97% to Rs1.27b. ITC has attributed lower sales growth to defocus on low margin products and impact of slowdown on lifestyle retailing and impulse fast foods.
- ✘ Hotel business degrew 14.1% as economic slowdown and terrorist attacks in Mumbai took toll on occupancy rates as well as ARR.
- ✘ Paper & paperboards sales grew 13.6%, while PBIT degrew 6.1% as margins declined 300bp due to increase in depreciation.
- ✘ Agri business reported 6% decline in sales to Rs6.2b due to lower volumes of soya. However, higher realization in leaf tobacco exports enabled the division to report margin expansion of 350bp.

**Outlook**

- ✘ ITC's focus seems to be shifting from topline growth to profitability. We believe cigarette and paper segments will continue to be key profit drivers in the near term. Hotels and new FMCG will remain under pressure.
- ✘ We are cutting earnings estimates to factor in higher losses in new FMCG and profit decline in hotel business.
- ✘ Our revised estimates for FY09 and FY10 are Rs8.7 (v/s Rs9) and Rs10.2 (v/s Rs10.4) respectively. The stock trades at 20.8x FY09E EPS of Rs8.7 and 17.8x FY10E EPS of Rs10.2. Maintain **Buy**.

**QUARTERLY PERFORMANCE**

Y/E MARCH	FY08				FY09				FY08	FY09E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
<b>Net Sales</b>	<b>33,252</b>	<b>32,734</b>	<b>34,580</b>	<b>39,344</b>	<b>38,997</b>	<b>37,633</b>	<b>38,333</b>	<b>44,063</b>	<b>139,475</b>	<b>159,026</b>
YoY Change (%)	16.7	13.4	11.0	13.5	17.3	15.0	10.9	12.0	14.7	14.0
Total Exp	21,977	22,414	22,583	28,897	27,726	26,473	24,806	32,072	95,436	111,077
<b>EBITDA</b>	<b>11,276</b>	<b>10,320</b>	<b>11,997</b>	<b>10,447</b>	<b>11,271</b>	<b>11,160</b>	<b>13,527</b>	<b>11,992</b>	<b>44,039</b>	<b>47,950</b>
Margins (%)	33.9	31.5	34.7	26.6	28.9	29.7	35.3	27.2	31.6	30.2
Depreciation	1,010	1,062	1,097	1,215	1,261	1,340	1,442	1,443	4,385	5,486
Interest	-8	9	18	27	14	28	5	54	46	100
Other Income	1,016	2,083	1,374	1,637	1,144	2,098	1,229	1,325	6,109	5,795
<b>PBT</b>	<b>11,289</b>	<b>11,331</b>	<b>12,256</b>	<b>10,842</b>	<b>11,140</b>	<b>11,890</b>	<b>13,310</b>	<b>11,819</b>	<b>45,718</b>	<b>48,159</b>
Tax	3,461	3,623	3,948	3,485	3,653	3,864	4,277	3,617	14,517	15,411
Rate (%)	30.7	32.0	32.2	32.1	32.8	32.5	32.1	30.6	31.8	32.0
<b>Reported PAT</b>	<b>7,829</b>	<b>7,709</b>	<b>8,307</b>	<b>7,357</b>	<b>7,487</b>	<b>8,027</b>	<b>9,032</b>	<b>8,202</b>	<b>31,201</b>	<b>32,748</b>
YoY Change (%)	20.0	13.4	15.8	13.1	-4.4	4.1	8.7	11.5	15.4	5.0
<b>Adjusted PAT</b>	<b>7,829</b>	<b>7,709</b>	<b>8,307</b>	<b>7,357</b>	<b>7,487</b>	<b>8,027</b>	<b>9,032</b>	<b>8,202</b>	<b>31,201</b>	<b>32,748</b>
YoY Change (%)	20.0	13.4	15.8	13.1	-4.4	4.1	8.7	11.5	15.6	5.0

E: MOSL Estimates

## Marico

STOCK INFO.	BLOOMBERG
BSE Sensex: 9,149	MRCO IN
	REUTERS CODE
S&P CNX: 2,784	MRCO.BO

3 February 2009

Buy

Rs58

*Previous Recommendation: Buy*

Equity Shares (m)	609.0
52-Week Range	75/47
1,6,12 Rel. Perf. (%)	4/43/39
M.Cap. (Rs b)	35.3
M.Cap. (US\$ b)	0.7

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
03/07A	15,569	989	1.6	-10.8	36.1	18.4	51.4	36.1	2.4	18.8
03/08A	19,067	1,589	2.6	60.6	22.5	11.2	50.5	33.5	2.0	15.5
03/09E	24,410	1,851	3.0	16.5	19.3	7.8	41.0	34.4	1.5	12.7
03/10E	26,115	2,202	3.6	19.0	16.2	5.7	35.3	37.5	1.4	10.5

**3QFY09 – In line**

- Consolidated net sales of Marico recorded a 23% YoY growth, largely led by price increases (15%) and 7% volume growth (v/s 11% in 2QFY09 and 15% in 1QFY09). Brands in Pure Coconut Oil category - Parachute and Nihar - have reported 9% volume growth while the Hair Oil volumes (in rigid packs) have increased by 15% YoY.
- Saffola grew by a mere 3% YoY on account of the rising price differential between Saffola and other edible oils leading to slower uptrading to Saffola (Most edible oils, except Safflower Oil, have fallen in line with crude).
- Marico witnessed margin pressure on account of higher raw material prices- Copra (up ~25%), Safflower oil (up ~50%). Gross margins for the quarter have declined 210bp.
- Kaya Skin care has reported sales of Rs410m (59% growth YoY). The management indicated pressure in the current environment given the high ticket discretionary spend as a result of which the same store sales growth declined to 13% v/s 26% in 2QFY09. International Business grew 44% YoY.

**Outlook**

- Volume growth in categories like Coconut oil and Hair oil is under pressure as conversion from loose oil to branded consumption could have got impacted due to price increase. Decline in Copra and Safflower oil from March could provide respite.
- We believe future growth platform for Marico would be under the health and wellness platform under brands like Saffola and Kaya.
- We remain positive on the company's long-term growth strategy. The stock trades at 19.3x FY09E EPS of Rs3 and 16.2x FY10E EPS of Rs3.6. We maintain **Buy**.

**QUARTERLY PERFORMANCE**

Y/E MARCH	(Rs Million)								FY08	FY09E
	FY08				FY09					
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
<b>Net Sales</b>	<b>4,691</b>	<b>4,638</b>	<b>5,062</b>	<b>4,675</b>	<b>6,009</b>	<b>6,035</b>	<b>6,228</b>	<b>6,137</b>	<b>19,067</b>	<b>24,410</b>
YoY Change (%)	25.8	22.7	23.7	17.8	28.1	30.1	23.0	31.3	22.5	28.0
Total Exp	4,031	3,990	4,420	4,220	5,253	5,296	5,437	<b>5,489</b>	16,603	21,474
<b>EBITDA</b>	<b>660</b>	<b>648</b>	<b>643</b>	<b>456</b>	<b>757</b>	<b>739</b>	<b>791</b>	<b>648</b>	<b>2,464</b>	<b>2,935</b>
Margins (%)	14.1	14.0	12.7	9.7	12.6	12.2	12.7	10.6	12.9	12.0
Depreciation	58	64	66	79	75	82	98	92	309	346
Interest	71	65	68	73	80	87	68	129	277	364
Other Income	7	5	3	37	10	12	31	64	67	117
<b>PBT</b>	<b>539</b>	<b>523</b>	<b>511</b>	<b>341</b>	<b>612</b>	<b>583</b>	<b>657</b>	<b>491</b>	<b>1,945</b>	<b>2,343</b>
Tax	136	101	83	39	149	111	148	84	360	492
Rate (%)	25.3	19.3	16.3	11.4	24.4	19.1	22.5	17.0	18.5	21.0
<b>Adjusted PAT</b>	<b>402</b>	<b>423</b>	<b>428</b>	<b>302</b>	<b>463</b>	<b>471</b>	<b>509</b>	<b>407</b>	<b>1,586</b>	<b>1,851</b>
YoY Change (%)	32.9	38.0	54.4	-2.4	15.1	11.6	19.0	35.0	60.4	16.7
Exceptional Items	0	0	31	106	0	0	0	0	106	0
<b>Reported PAT</b>	<b>402</b>	<b>423</b>	<b>459</b>	<b>408</b>	<b>463</b>	<b>471</b>	<b>509</b>	<b>407</b>	<b>1,692</b>	<b>1,851</b>

E: MOSL Estimates

Tata Tea

STOCK INFO.	BLOOMBERG
BSE Sensex: 9,149	TT IN
	REUTERS CODE
S&P CNX: 2.784	TTTE.BO

3 February 2009

Neutral

Previous Recommendation: Neutral

Rs563

Equity Shares (m)	61.8	YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
52-Week Range	936/430	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
1,6,12 Rel. Perf. (%)	-2/15/21	3/07A	40,446	2,710	43.8	-7.2	12.8	1.5	12.5	11.7	1.8	10.2
M.Cap. (Rs b)	34.8	3/08E	43,923	2,898	46.9	7.0	12.0	1.0	8.1	11.5	0.7	4.2
M.Cap. (US\$ b)	0.7	3/09E	48,533	3,149	50.9	8.7	11.1	0.9	8.1	13.6	0.5	4.1
		3/10E	52,290	4,120	66.6	30.8	8.5	0.8	10.0	15.1	0.5	3.2

**3QFY09- Below expectation**

- 3QFY09 results are below estimates with consolidated net sales at Rs.13b, up 14.6% (est. Rs12.65). EBITDA margin declined 400bp to 13.2% (est 14.6%). Adj PAT degrew 3.3% to Rs821m (est of Rs700m). The company recorded foreign exchange gain to the tune of Rs5.8b on sterling depreciation against dollar on short term dollar investment held by Tata Tea GB.
- Tata Tea standalone sales increased 22.8%, (13.6% in 1HFY09) due to strong branded tea performance as well as price increases. Tata Coffee reported 20% increase in consolidated sales to Rs3b, while EBITDA margin declined 390bp to 14.4%. PAT degrew 95% to Rs4m (Rs79m in 3QFY08). Mount Everest Mineral water net sales declined 12% to Rs59.9m with a net loss of Rs73.9 (up 35% YoY).
- Sharp increase in material cost led to gross margin contraction of 520bp, while lower ad spend helped arrest EBITDA margin decline to 400bp. EBITDA declined 12% YoY to Rs1.7b.

**Outlook**

- The management believes tea is witnessing a typical commodity boom and is at the tipping point. We believe even if tea prices retreat from current levels, margin pressures for Tata tea would continue for the coming quarter as well.
- Tata Tea has restructured US operations due to poor demand condition and to control cost.
- We have FY09 and FY10 EPS estimates of Rs50.9 and Rs66.6. The stock trades at 11.1x FY09 earnings and 8.5x FY10 earnings. Maintain **Neutral**.

QUARTERLY PERFORMANCE										(Rs Million)	
Y/E MARCH	FY08				FY09				FY08	FY09E	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			
<b>Net Sales</b>	<b>10,107</b>	<b>10,548</b>	<b>11,849</b>	<b>11,768</b>	<b>11,347</b>	<b>12,003</b>	<b>13,009</b>	<b>12,175</b>	<b>43,923</b>	<b>48,533</b>	
YoY Change (%)	26.5	8.3	6.5	1.5	12.3	13.8	9.8	3.5	8.6	10.5	
Total Exp	8,502	8,955	9,643	10,153	9,809	10,568	11,286	10,580	36,821	42,244	
<b>EBITDA</b>	<b>1,606</b>	<b>1,594</b>	<b>2,112</b>	<b>1,615</b>	<b>1,538</b>	<b>1,435</b>	<b>1,722</b>	<b>1,595</b>	<b>7,102</b>	<b>6,290</b>	
Margins (%)	15.9	15.1	17.8	13.7	13.6	12.0	13.2	13.1	16.2	13.0	
Depreciation	236	217	227	235	222	221	241	239	916	923	
Interest	918	632	504	118	109	154	155	1,733	2,214	2,150	
Other Income	86	268	47	59	74	281	91	2,306	397	2,752	
<b>PBT</b>	<b>538</b>	<b>1,013</b>	<b>1,427</b>	<b>1,322</b>	<b>1,280</b>	<b>1,341</b>	<b>1,418</b>	<b>1,929</b>	<b>4,369</b>	<b>5,969</b>	
Tax	134	298	503	594	440	402	485	642	1,534	1,970	
Rate (%)	25.0	29.4	35.2	44.9	34.4	30.0	34.2	33.3	35.1	33.0	
<b>PAT</b>	<b>404</b>	<b>715</b>	<b>924</b>	<b>728</b>	<b>840</b>	<b>939</b>	<b>934</b>	<b>1,286</b>	<b>2,835</b>	<b>3,999</b>	
YoY Change (%)	-52.7	-41.1	81.8	158.8	108.1	31.4	1.0	76.7	7.9	41.1	
Minority Interest/ Share of Associate	-50	132	-103	-46	-97	-117	113	-749	63	-850	
<b>Adjusted PAT</b>	<b>353</b>	<b>847</b>	<b>821</b>	<b>682</b>	<b>743</b>	<b>822</b>	<b>821</b>	<b>538</b>	<b>2,898</b>	<b>3,149</b>	
YoY Change (%)	-56.9	-33.4	96.6	237.4	110.3	-2.9	-0.1	-21.1	7.0	8.7	
Extraordinary Gains	86	-33	15,723	448	14	1,356	4,002	0	16,160	1,370	
<b>Reported PAT</b>	<b>439</b>	<b>813</b>	<b>13,073</b>	<b>1,130</b>	<b>757</b>	<b>2,178</b>	<b>4,822</b>	<b>538</b>	<b>19,059</b>	<b>4,519</b>	
YoY Change (%)	-48	-58	1,016	123.7	72.4	167.7	-63.1	-52.4	316.1	-76.3	

E: MOSL Estimates



## United Spirits

STOCK INFO.	BLOOMBERG
BSE Sensex: 9,149	UNSP IN
	REUTERS CODE
S&P CNX: 2,784	UNSP.BO

3 February 2009

Buy

Rs560

Previous Recommendation: Buy

Equity Shares (m)	100.2
52-Week Range	1,873/426
1,6,12 Rel. Perf. (%)	-31/-19/-17
M.Cap. (Rs b)	56.1
M.Cap. (US\$ b)	1.1

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
03/07A	29,619	2,973	41.2	902.9	13.6	3.0	19.3	16.2	1.6	11.2
03/08A	46,275	3,012	33.7	-18.3	16.6	2.2	12.4	12.1	2.3	9.8
03/09E	54,062	3,015	33.7	0.0	16.6	2.1	12.7	11.6	2.0	9.8
03/10E	61,659	4,248	47.5	40.9	11.8	1.8	15.1	13.2	1.7	8.1

\*Consolidated nos; including Whyte &amp; Mackay

## 3QCY09 – Below expectation

- 20% volume growth on the back of a strong 19% volume growth in first line brands. McDowell No1 grew by 17%, Royal challenge grew by 13% while Antiquity and Signature posted strong 33% and 28% growth.
- The sharp increase in key raw material like ENA and Molasses and glass resulted in a 960bp decline in gross margin to 38.9%. EBITDA margin declined by 890bp to 10.3%. PAT declined by 65% YoY to Rs306m v/s our estimate of Rs1.06b.
- Whyte & Mackay reported at 8.5% growth in revenue to GBP152m for 9MFY09. While EBITDA at GBP53.9m was up 5% YoY as margins declined 168bps.

## Outlook

- Management is confident of sustaining the volume growth traction in the coming quarters.
- EBITDA margin would bounce back by 360bp in 4QFY09 from 10.3% in 3QFY09 but it would take the company quite some time to return to normal level of profitability.
- Debt repayment is likely to put a strain on the financials of United Spirits. Repayment obligations stand at Rs5.7b in FY10 and Rs14.5b in FY11. The management has indicated sale of treasury stock (17% of equity) and is open to 49% stake sale in Whyte & Mackay, which has scotch stocks of GBP456m. However, deleveraging could be a difficult task due to sharp decline across asset classes and treasury stock value (Rs10b).
- We are downgrading our EPS estimates from Rs46.7 to Rs33.7 for FY09 and from Rs67 and Rs47.5 for FY10. The stock trades at 16.6x FY09E and 11.8x FY10E earnings. The divestment of treasury stock to a strong strategic investor could rerate the stock significantly. We maintain **Buy**.

QUARTERLY PERFORMANCE (STANDALONE)									(RS MILLION)	
Y/E MARCH	FY08				FY09				FY08	FY09E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
<b>Net Sales</b>	<b>7,657</b>	<b>7,526</b>	<b>8,890</b>	<b>7,590</b>	<b>10,134</b>	<b>9,020</b>	<b>10,293</b>	<b>8,897</b>	<b>31,663</b>	<b>38,344</b>
YoY Change (%)	16.9	19.1	15.3	15.9	32.3	19.9	15.8	17.2	6.9	21.1
Total Exp	5,943	6,047	7,182	6,237	7,982	7,230	9,229	7,662	25,359	32,103
<b>EBITDA</b>	<b>1,714</b>	<b>1,479</b>	<b>1,708</b>	<b>1,353</b>	<b>2,152</b>	<b>1,790</b>	<b>1,063</b>	<b>1,236</b>	<b>6,304</b>	<b>6,242</b>
Margins (%)	22.4	19.6	19.2	17.8	21.2	19.8	10.3	13.9	19.9	16.3
Depreciation	70	72	90	85	82	87	87	97	317	354
Interest	292	328	328	329	341	395	529	485	1,276	1,750
<b>PBT From operations</b>	<b>1,352</b>	<b>1,079</b>	<b>1,290</b>	<b>939</b>	<b>1,729</b>	<b>1,308</b>	<b>447</b>	<b>654</b>	<b>4,711</b>	<b>4,138</b>
Other income	49	112	96	107	72	125	60	226	294	483
<b>PBT</b>	<b>1,400</b>	<b>1,191</b>	<b>1,386</b>	<b>1,047</b>	<b>1,801</b>	<b>1,433</b>	<b>507</b>	<b>880</b>	<b>5,004</b>	<b>4,621</b>
Tax	505	389	505	396	630	494	201	318	1,794	1,643
Rate (%)	36.0	32.7	36.4	37.8	35.0	34.5	39.7	36.2	35.8	35.6
<b>PAT</b>	<b>896</b>	<b>802</b>	<b>882</b>	<b>651</b>	<b>1,171</b>	<b>939</b>	<b>306</b>	<b>561</b>	<b>3,211</b>	<b>2,978</b>
YoY Change (%)	98.5	42.5	14.7	14.1	30.8	17.0	-65.3	-13.8	-32	-7.3
<b>Reported PAT</b>	<b>896</b>	<b>802</b>	<b>882</b>	<b>651</b>	<b>1,171</b>	<b>939</b>	<b>306</b>	<b>561</b>	<b>3,211</b>	<b>2,978</b>

E: MOSL Estimates



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