December 19, 2008 Strictly confidential

FMCG- Sector

T-Rex of their own jungle

- Market share movements indicate that companies such as Marico Ltd and Nestle India Ltd, with domination in their key categories, have improved their market shares and outperformed peers in the FMCG sector. This has been also aided by the lack of competition in the respective categories.
- Single-product leaders such as Colgate Palmolive India Ltd and Britannia Industries Ltd have also witnessed strength in their respective categories, aided by innovations and strong distribution.
- Strong players in the economy segment like Godrej Consumer Products Ltd in soaps and Dabur in toothpastes have also posted market share improvement, with revived growth in semi-urban and rural markets.
- Structurally, we find Marico Ltd and Nestle India Ltd the best picks, followed by Colgate and Britannia. Further, in case of Dabur India Ltd and Godrej Consumer Products Ltd, we find concerns of the slowdown in their key categories. Hence, we recommend a BUY on Marico Ltd, Nestle India Ltd and Britannia Industries Ltd and a HOLD on Colgate Palmolive India Ltd, Dabur India Ltd and Godrej Consumer Products Ltd.

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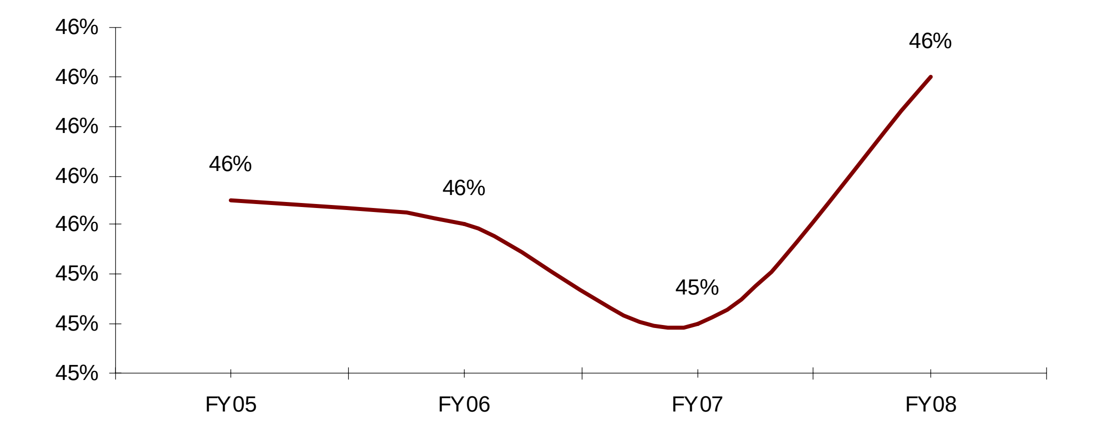
Investment argument

Companies such as Marico, Nestle, Colgate and Britannia, with a sharp focus on their key categories growth, have outperformed the industry.

Companies with high focus in few key categories have outperformed

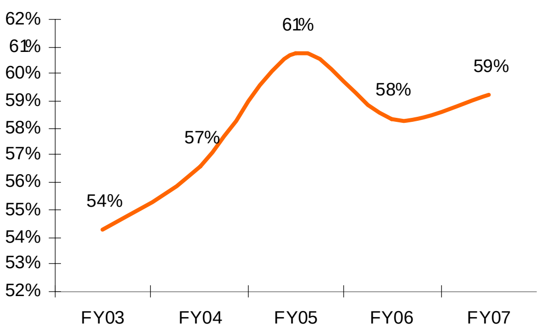
Over the last 5-7 years, companies such as Marico and Nestle, with a sharp focus on their key categories, have outperformed the industry growth as well as larger and more comprehensive players like Hindustan Unilever. Further, after the initial loss of market shares to regional and smaller players during the two years (FY03-05) of down-trading, category leaders and single-product dominated companies such as Colgate and Britannia have bounced back with increased focus on their portfolio offering and presence across price points. Out-performance of these companies has also been backed by a strong distribution network, which has helped them to curb competition from small and regional players. However, in cases like the one of GCPL, the shift in consumption in hair dyes from powder hair dye to fashion colours has impacted the dominance, leading to loss of market share for the company.

Marico's market share in coconut oil

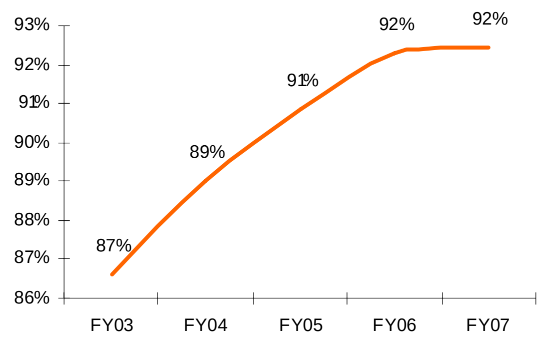


Source: Industry

Nestle's market share in noodles

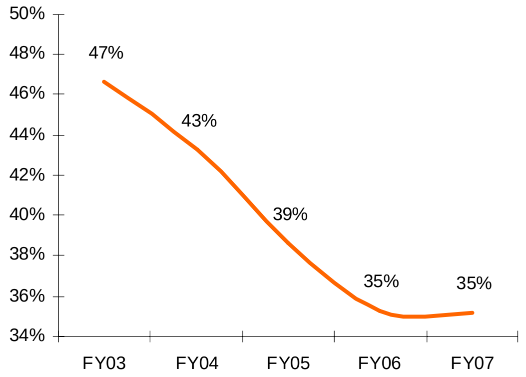


Nestle's market share in baby foods

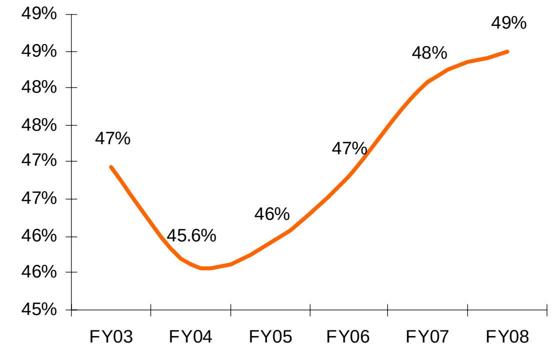


Source: Industry

Britannia's Market share in biscuits

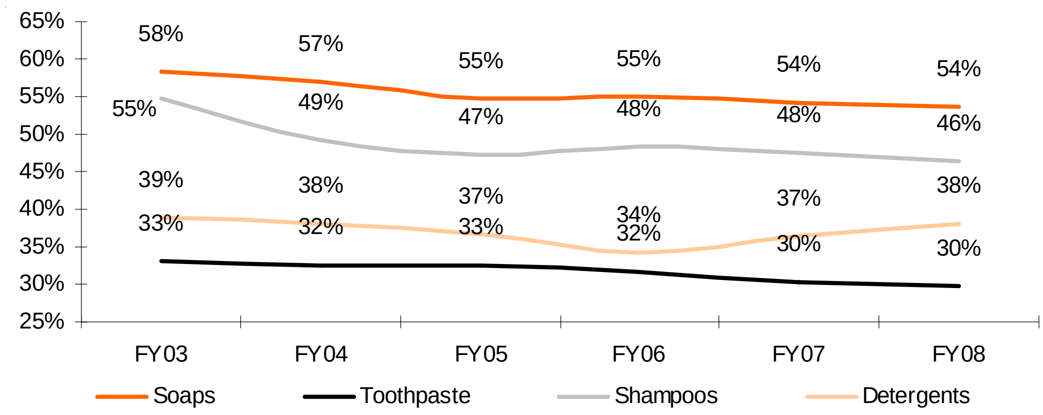


Colgate's market share in toothpaste



Source: Industry

HUL key categories market share trend



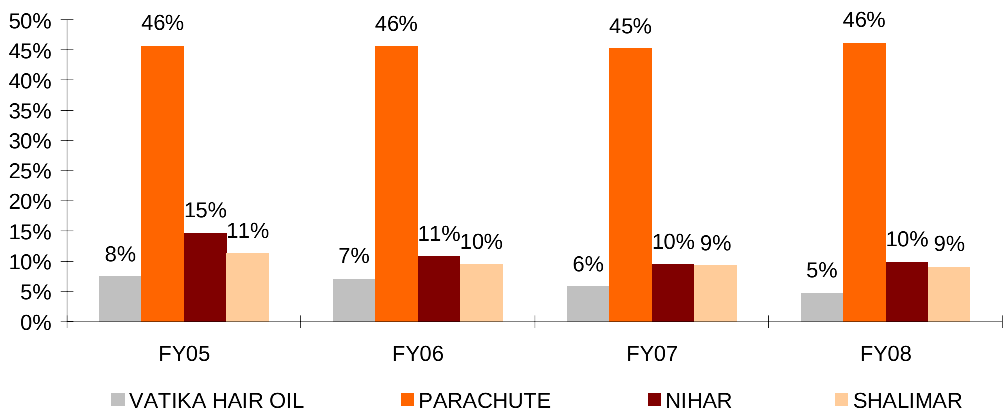
Source: Industry

Lack of strong comprehensive players in the respective under-penetrated categories has aided continued dominance and out-performance.

Lack of competition has aided continued dominance for the players

In addition to the focus on key categories, the lack of strong and comprehensive players in the respective under-penetrated categories has aided continued dominance and out-performance of these players. In the case of Marico, HUL and Dabur were the only key competitors in coconut oil, of which, HUL pulled out by selling the brand to Marico, thus adding up to its dominance in the category. For Nestle, the company has a near-monopoly position in the baby foods category, with a 92.4% market share and strong entry barriers like restriction on advertisement of baby foods. In the instant noodles business, no meaningful competition has emerged with a comparable distribution network. Colgate's competitive pressure has also been low in the recent past, due to the lack of competition in the economy segment from the second-biggest player, Hindustan Unilever Ltd.

Coconut oil market share



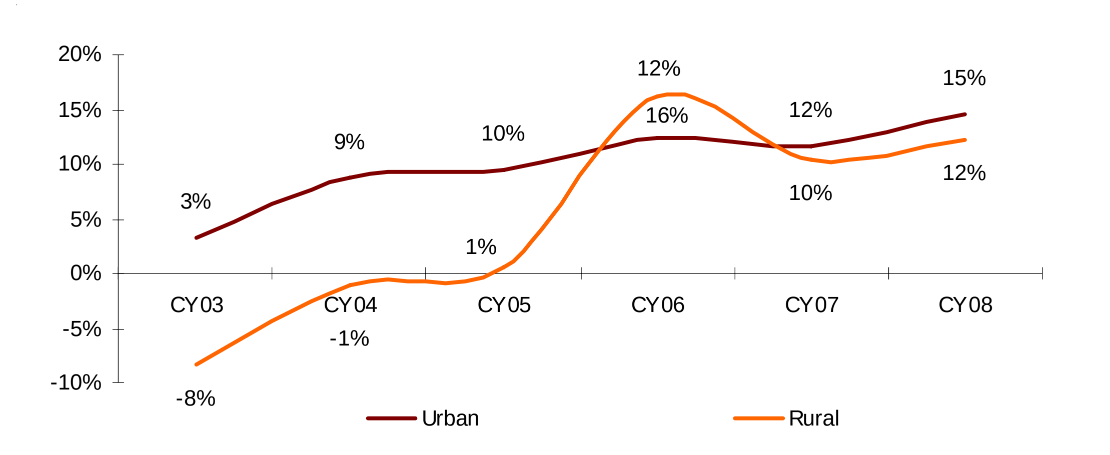
Source: Industry

The rising significance of the economy segment has been due to the revived growth witnessed in rural markets.

Strong presence in the economy segment has aided performance

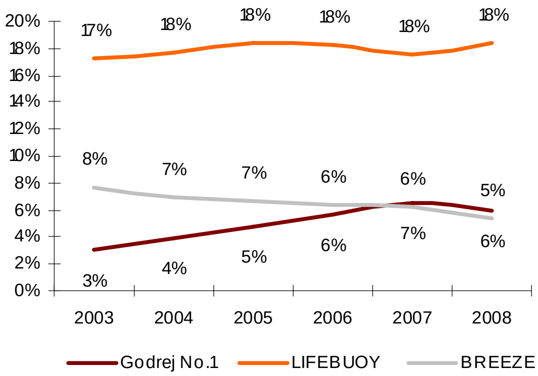
Strong branding in the economy segment also has aided improvement in market shares for certain players such as Godrej Consumer and Dabur. While Godrej Consumer's market share has improved by290bps over the past 5 years to 6%, Dabur has gained market share to the tune of 220bps in the toothpastes segment to 5.5%. The rising significance of the economy segment, in turn, has been due to the revived growth witnessed in rural markets. Further, the continued urbanisation and increased migration of people from rural India to urban India have also created a rising consumer base for the economy segment in branded products.

FMCG-Urban and rural growth

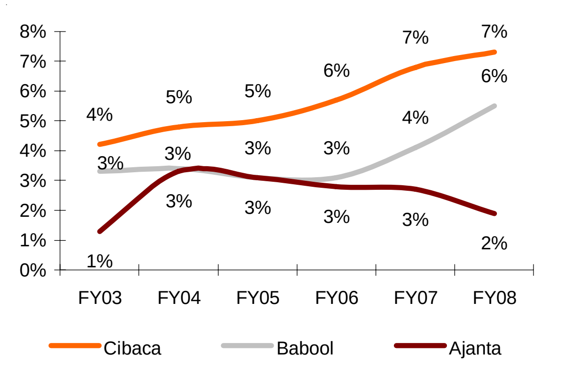


Source: Industry

Soaps(economy) market share



Toothpaste(economy) market share



Source: Industry

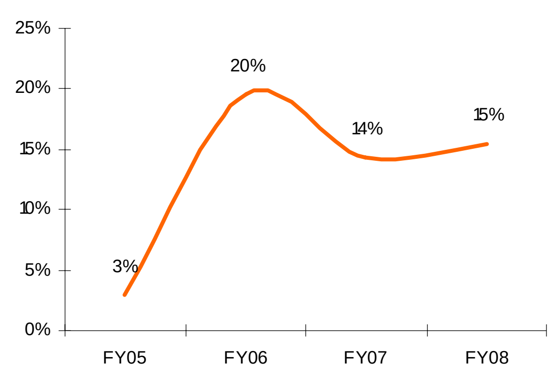
Marico, the undoubted winner in coconut oil

Parachute coconut oil's market share has gone up from 45.7% in FY05 to 46.2% in FY08.

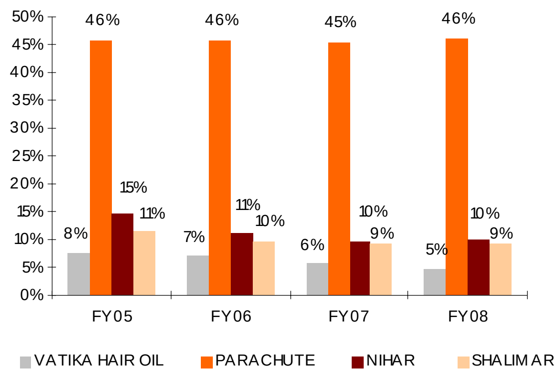
Marico's organic growth (adjusting for the acquisition) in sales during FY05-08 has been to the tune of 18%. This has been primarily backed by consistent growth in coconut oil, hair oil and health-based edible oil. Parachute coconut oil (33% of Marico's net sales) during the period grew by a CAGR of 12.4%, while value-added hair oils and saffola fuelled the incremental growth by growing at a CAGR of 25% and 20%, respectively. Marico's dominance in the coconut oil category has remained consistent over the last 5 years through its leading brand, Parachute Coconut Oil. In the coconut oil industry, which has grown at a CAGR of 10% during FY03-08 to INR13.6bn, the parachute coconut oil's market share has gone up from 45.7% in FY05 to 46.2% in FY08. Additionally, the company has gained market share to the tune of 10% from its acquisition of Nihar. This has been against the loss of market share by the nearest competitors, Dabur and

Shalimar, during the same period. Shalimar's market share has declined from 11.3% in FY05 to 9.2% in FY08, while Dabur's market share declined from 7.5% in FY05 to 4.8% in FY08. Thus, Marico has been the only player whose market share has increased, while its main competitors have been losing market share consistently, thus improving the company's dominance.

Coconut oil segment growth



Coconut oil market share



Source: Industry

In value-added hair oils, Marico has been gainir market share in categories, where it has increased its market share from 18% in FY04 to 20% in FY08.

Hair Oil Market Share(%)

	FY04	FY08
Dabur	35.6	29.9
Marico	17.8	20.4
Dey' Medical	10.1	6.2
Bajaj	**9.0**	**10.9**

Source: Industry

Further, the company has carved out a niche for itself in the refined edible oil segment through its health-based refined edible oil, Saffola. This brand has witnessed average growth in volumes at a of 15% during FY04-FY08.

Nestle strengthening hold over baby foods and instant noodles

Nestle India's growth at a CAGR of 17% during CY04-07 has been aided by its accelerated growth in key categories, milk products and nutrition (43% of sales), prepared dishes and cooking aids (23% of net sales), and chocolates and confectionaries (16% of net sales). Milk products and nutrition have grown during the period by a CAGR of 15%, while the incremental growth has been led by a CAGR of 25% in prepared dishes and cooking aids, and at a CAGR of 20% in chocolates and confectionaries.

In the baby foods category, Nestle's market share has increased from 86.6% in 2003 to 92.4% in FY07.

The consistent performance of the milk products and nutrition business has been on the back of market share improvement in the baby foods and milk powder category. In the baby foods category, Nestle's market share has increased from 86.6% in 2003 to 92.4% in FY07 in value terms, backed by continued innovations in the category.Further, in the milk powder category, Nestle has increased its market share from 25.7% in 2003 to 32.7% in FY07.

Nestle's new product launches

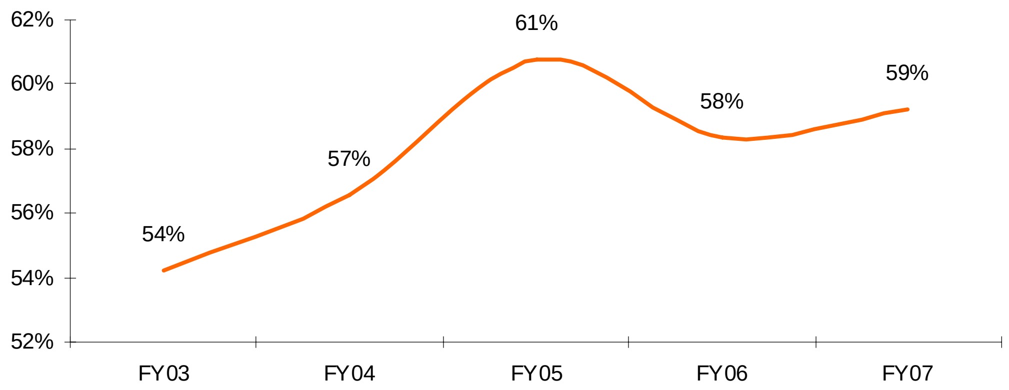
CY04	CY05	CY06	CY07
CERELAC 123 NESTUM 123, NESTLÉ SweetLassi		MAGGI Vegetable Atta Noodles NESTLÉ KIT KAT Lite POLO Powermint	Nestle Nido(milk powder) Nestle Crevita(Cereal) Nestle Milkmaid funshakes NESTLÉ FRESH 'N'NATURAL NESTLÉ MILKMAID Fruit Yoghurt NESTLÉ NESVITA, MAGGI Rice Noodles, NESTLÉ MUNCH Pop Chocs

Source: Company

Nestle has witnessed a market share improvement in the noodles category from 54.2% in 2003 to 59.2% in FY07.

The accelerated growth in prepared dishes and cooking aids has been primarily led by improving market share in the noodles and the vermicelli industry both in terms of volume and value. The company has witnessed a market share improvement in this category from 54.2% in FY03 to 59.2% in FY07 in value terms. This could be attributed to the product availability across price points and continued increase in penetration. Additionally, continued innovations by the company in this category were a key driver of growth.

Nestle's market share in Noodles

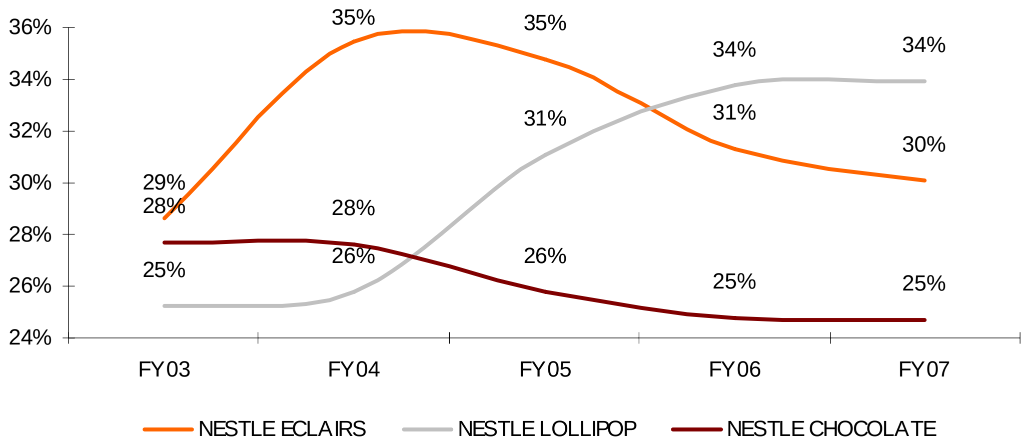


Source: Industry

Growth in chocolates was led by an increase in penetration and availability of products at lower price points.

The growth in chocolates was also led by an increase in penetration and availability of products at lower price points. However, we believe that the company has benefited from the growth in the category as a whole, as Nestle India's market share in the total chocolate and confectionary industry has remained flat at 13% during the period.

Nestle's Market share in Chocolates & Confectionary



Source: Industry

Overall, Nestle has been gaining market share in all its major categories, namely, noodles, baby foods, milk products and with the contribution. Therefore, even in an environment of down-trading, since Nestle is the biggest and the most dominant player in these categories, it is likely to outperform.

Dominant share in fruit juices and increasing share in toothpastes aiding Dabur

In the domestic market, Dabur's dominant market share in foods, particularly in fruit juices (51% market share) and increasing share in toothpastes at 7% (particularly post-Balsara acquisition), has driven the company's performance. Further, the dominant share in Chyawanprash has also supported its growth.

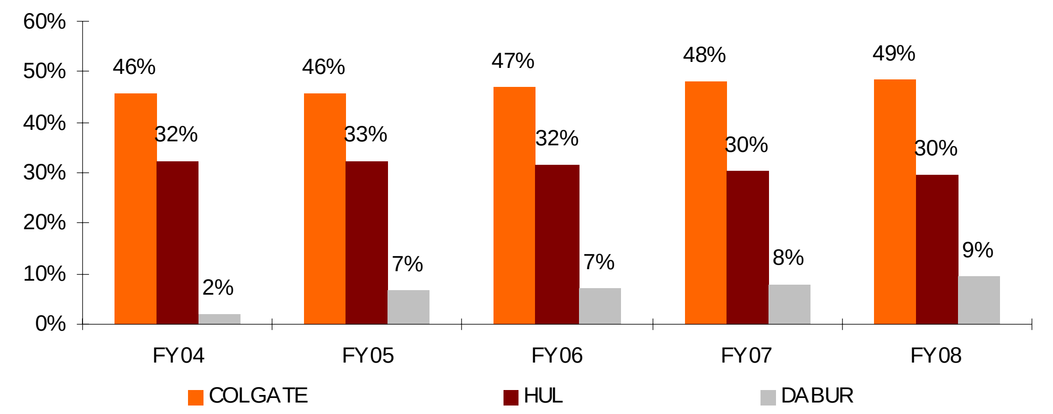
During FY05-08 Dabur's foods portfolio grew by a CAGR of 23%.

During FY05-08, Dabur's overall performance has been primarily driven by its international business division (16% of sales), foods (10% of sales) and oral care (15% of sales). Additionally, a consistent growth of 13% (CAGR) in the health supplements business (15% of sales) has supported the company's growth in sales during the period. The international business division has grown by a CAGR of 27.5% during FY05-08. The company's oral care portfolio has grown by a CAGR of 18% CAGR during FY05-08, and its foods portfolio by a CAGR of 23% during the same period.

Dabur's market share in toothpaste has increased from 7% in FY05 to 9.4% in FY08

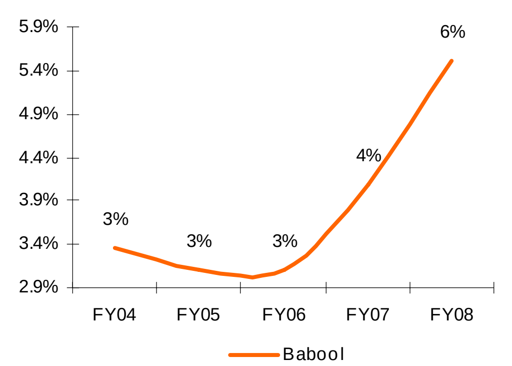
Dabur's oral care portfolio consists primarily of toothpastes (60% of oral care sales) and toothpowder (40% of oral care sales). In the oral care business, Dabur's performance has been primarily driven by its increasing share in toothpastes. The market share has grown from 7% in FY05 to 9.4%in FY08. This has been on the back of the rising share of Dabur Red Toothpaste and Babool in popular and economy segments. However, the economy segment has been the main contributor to the Dabur's overall gain in toothpaste market share. We believe that the gain in market share in the economy segment has been from smaller players such as Anchor and Ajanta. Also, the growth in the economy segment, as a whole, has been higher over the last 3 years, providing additional benefits in terms of market share to Dabur. Dabur's market share gains in Dabur Red Toothpaste and Babool has been instrumental in the company's oral care growth, as they contribute about 53% of its oral care business.

Toothpaste Market share

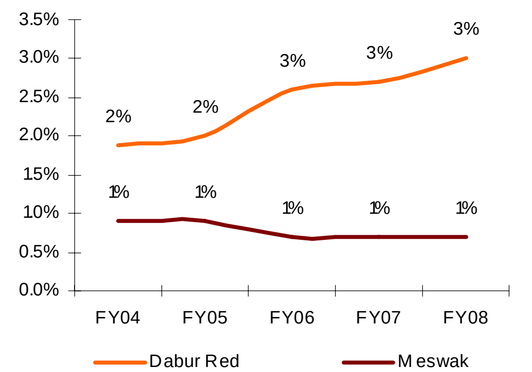


Source: Industry

Toothpaste Market share (Economy)



Toothpaste Market share (popular)



Source: Industry

In the foods category, the company's performance has been primarily led by fruit juices.

Dabur's market share in Chyawanprash has gone up from 58.2% in FY05 to 60% in FY08.

In glucose powders, Dabur has a gained a substantial market share of around 380 bps to 21.5% over the last 3 years.

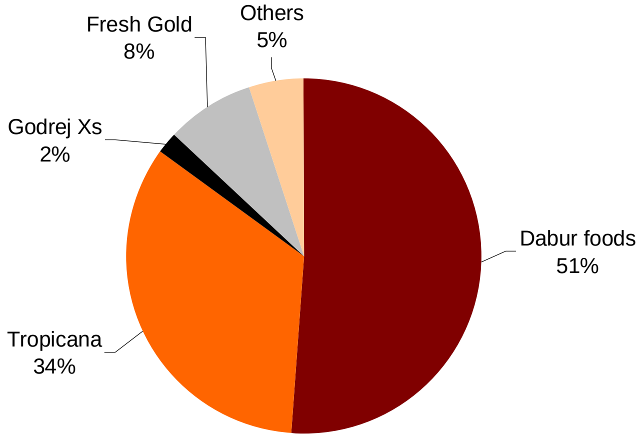
The company has lost market share in hair oils from 35.7%in FY05 to 31.5% in FY08.

In FY09, Dabur has gained further market share in shampoos to the tune of 63 bps to 5.8%.

In the toothpowder category, Dabur has been gaining market share during FY03-08. Its market share has gone up from 29.6% in FY03 to 30.4% in FY08.

In the foods category, the company's performance has been primarily led by fruit juices. In fruit juices, it has a consistent market share of about 51%, which has aided its growth against global players like Pepsico. In the last 2 years, Dabur has been witnessing a slowdown in this category, primarily on account of supply constraints arising from shutdowns at its Nepal plant.

Fruit Juice Market share



Source: Company

Apart from oral care and foods, of the other two key categories for Dabur, health supplements (15% of sales) and hair care (22% of sales), the former category has aided Dabur's growth, with a consistent market share improvement in Chyawanprash, which contributes around 53% of the company's health supplement sales. Its market share has gone up from 58.2% to 60% in FY05 and FY08, respectively. While Dabur has been gaining market share, other players such as Zandu and Emami have been losing market share during the same period.

Additionally, glucose and honey contributing about 14% and 26%, respectively, of health supplement sales have driven the business performance. In glucose powders, the company has a gained substantial market share of around 380 bps to 21.5% during the last 3 years against the substantial market share loss of 840 bps by Heinz to 58%. It is evident that the higher focus on Chyawanprash and Glucose has driven the company's performance in the health supplement business.

Hair care, Dabur's largest contributor to sales, has grown at a slower pace of 8% over its other businesses during FY05-08. However, the business has picked up during the last 2 years, led by Dabur Amla hair oil and Dabur's shampoo portfolio.

In Dabur's hair care business, hair oils contribute 81%, while shampoos 19%. In the hair oil category, the company has lost market share in categories of its interest from 35.7% to 31.5% in FY05 and FY08, respectively. This market share loss, we believe, has primarily been in favour of Bajaj, which has increased its market share from 10.5%in FY05 to 14.5% in FY08.

However, during FY05-08, Dabur in the shampoos category has outperformed and gained market share to the tune of 30 bps to 5.1%. The gain in market share has been primarily in the daily care category to the tune of 90 bps to 5.2% in FY08. During FY09, the company has gained further market share of 63 bps to 5.8%.

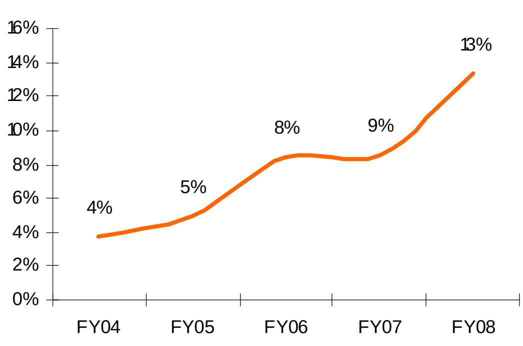
GCPL losing in high-margin hair dye, gaining on low-margin soaps

Godrej Consumer Products has outperformed in its largest category in terms of sale of soaps (50% of sales). However, it has lost its market share and underperformed in its profit-generating business, hair dyes (18% of sales and 40% of profits). While the company's market share in soaps has increased from 6.4% in FY05 to 9.1% in FY08, its market share in hair dyes has declined from 43.3% in FY03 to 37.4% in FY08.

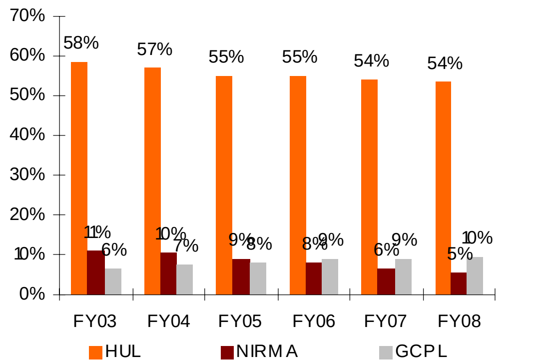
GCPL has primarily gained market share in the economy segment through Godrej No.1.

In soaps, Godrej Consumer Products has primarily gained market share in the economy segment through Godrej No.1. As against this, HUL, the leading player in the category, has witnessed a decline in market share from 58.4% in FY03 to 53.5% in FY08. This decline in market share can be attributed to the dip in the market share of Lifebouy Franchise and Breeze. Nirma has also been losing its market share in this category. Its market share has gone down from 11.2% in FY03 to 5.3% in FY08, with a decline in market share across its range of offerings.

Soaps growth rate



Soaps Market share

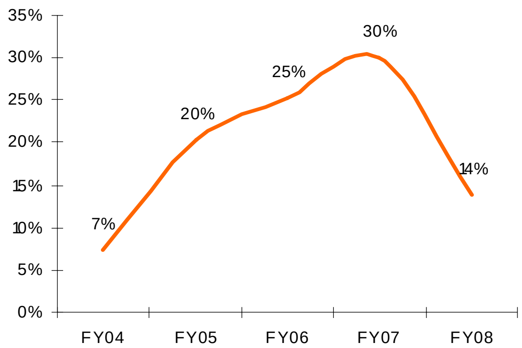


Source: Industry

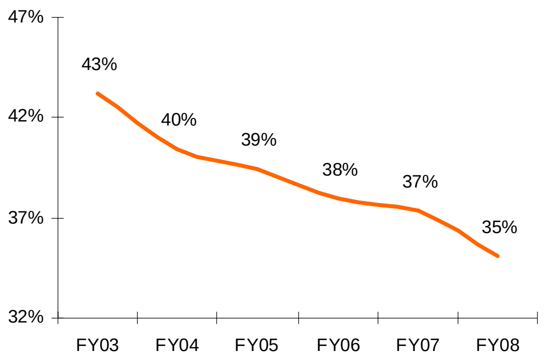
While the industry grew at a CAGR of 20.8% during FY03-07, GCPL's hair dye division grew at a CAGR of 16.4% during the same period.

In the hair dye category, Godrej Consumer Products Ltd (GCPL) has lost its market share. As a result, while the industry grew at a CAGR of 20.8% during FY03-07, GCPL's hair dye division grew at a CAGR of 16.4% during the same period. GCPL has strong positioning in the traditional powder hair dye segment, which falls in the economy segment, while the growth in the industry has been primarily driven by fashion hair colours. Consequently, GCPL lost out due to its primary positioning in the hair dye segment, despite an increase in its volume market share from 26% in FY03 to 27.3% in FY07. The market loss was in favour of strong fashion colour brand L'Oreal, which we understand, has mainly gained market share through its fashion colour brand, Color Naturals, which is supposed to be its cheapest hair colour product across the world. All these factors indicate that GCPL has been outperformed in the economy powder hair dyes, but has lost market share due to its underperformance in the higher priced fashion colour.

Hair dye industry growth



GCPL's Market share in hair dyes



Source: Company,Antique

Colgate gaining through innovations and economy product in toothpastes

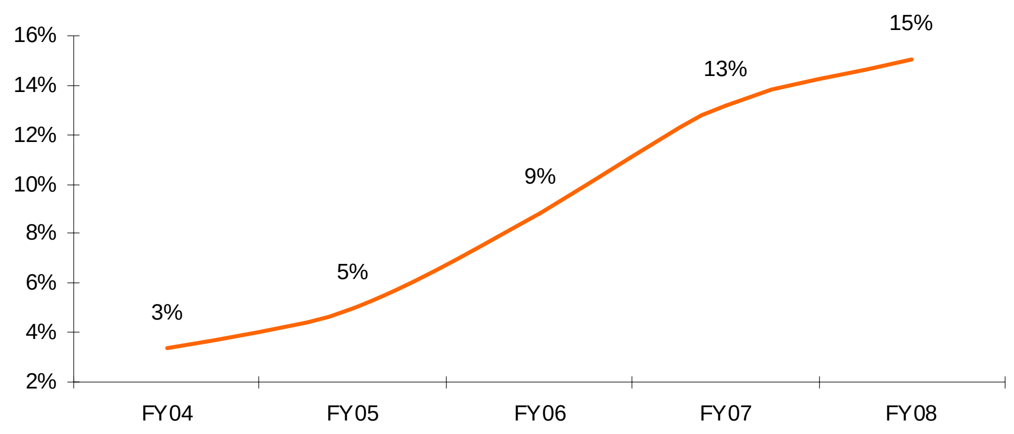
Colgate's market share in toothpastes has increased from 46.9% in FY03 to 48.5% FY08.

Colgate has witnessed a revival of performance in its key category, oral care, primarily through market share gains in its largest contributor to sales, toothpastes (70% of sales). The company's market share in toothpastes has increased from 46.9% in FY03 to 48.5% in FY08. This market share gain has been commendable after a decline in market share to 45.9% in FY05. Therefore, it has gained market share to the tune of 260 bps over the last 3 years. This gain has been primarily backed by the out-performance of its economy brand, Cibaca. Cibaca's market share has grown from 4.2% in FY03 to 7.3% in FY08. The positioning of Cibaca has helped Colgate reach out to a larger market, and capitalise on the conversion from traditional methods of oral care and toothpowder to toothpastes, as the target market is highly price-sensitive. The accelerated growth in rural markets has also aided Cibaca's out-performance. Colgate has also gained market marginally in premium and popular segments, despite a fall in its market share in Colgate dental cream. This has been possible through new innovative introductions like Colgate Maxfresh gel, which has led to a total market share of about 3%. The total market share gained through these new launches has been to the tune of around 5%.

HUL has lost market share in toothpastes over the last 5 years from 33% in FY03 to 29.8% in FY08.

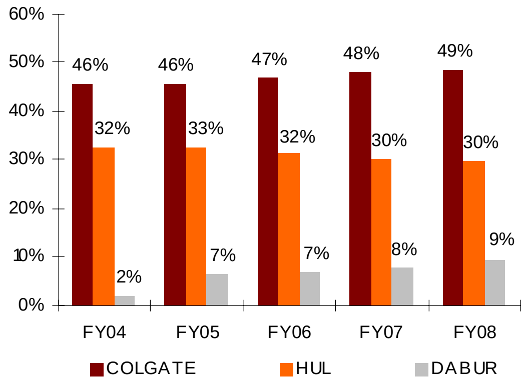
HUL, the second-largest player, has lost market share in toothpastes over the last 5 years from 33% in FY03 to 29.8% in FY08. The decline in market share has been a function of market share drop in the Pepsodent franchise and higher growth in the economy segment as a whole, which has benefited the leading player, Colgate, and the other strong player in the economy segment, Dabur. Dabur's market share has grown from 6.6% in FY05 to 9.4% FY08. HUL has lost out on the opportunity in the economy segment due to lack of products. It caters to the rural market and the economy segment, primarily through small-priced units.

Toothpaste industry growth rate

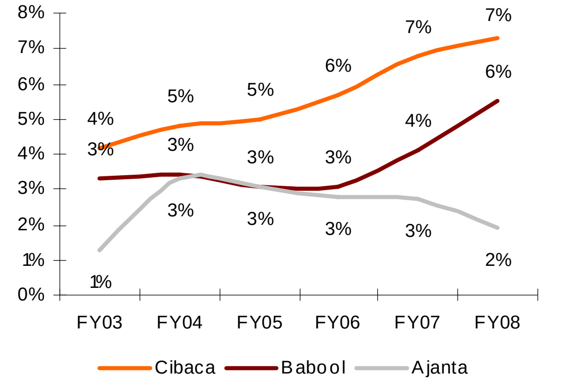


Source: Industry

Toothpaste Market share



Market share of toothpaste (Economy)

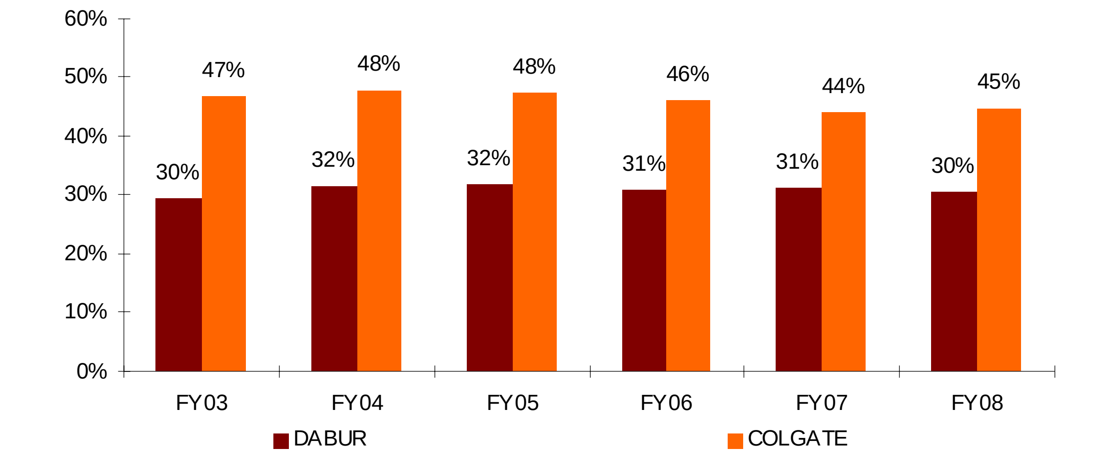


Source: Industry

Colgate has lost market share in toothpowder by 200 bps to 44.7%, while it has gained market share by about 700 bps in toothbrush.

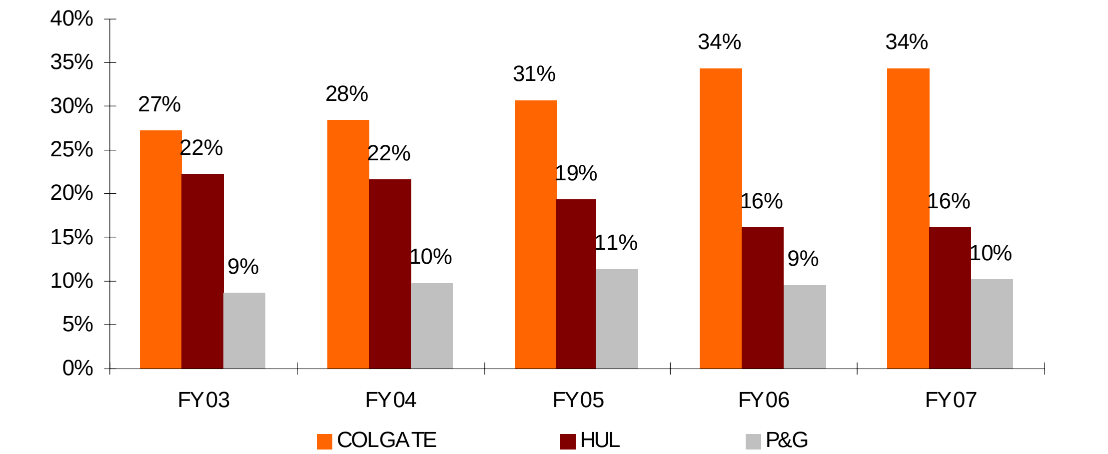
In other key categories, toothpowder and toothbrush, Colgate has lost market share in the former by 200 bps to 44.7%, while it has gained market share substantially by about 700 bps in the more important category, toothbrush. Toothbrush is an important category, as the shift in trend from traditional methods of oral care and toothpowder to toothpaste would also give rise to higher demand for toothbrush.

Toothpowder Market share



Source: Industry

Toothbrush Market share



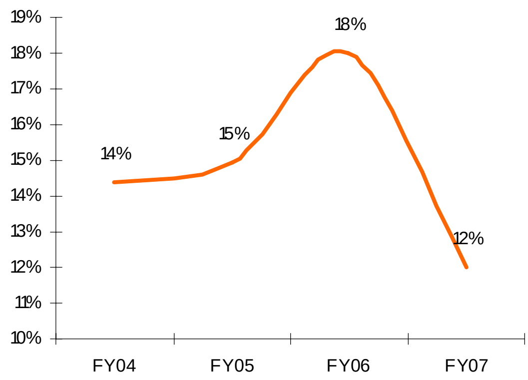
Source: Industry

Britannia has witnessed stabilisation in market share, backed by the regaining of market share in the economy segment through its key brand, Tiger.

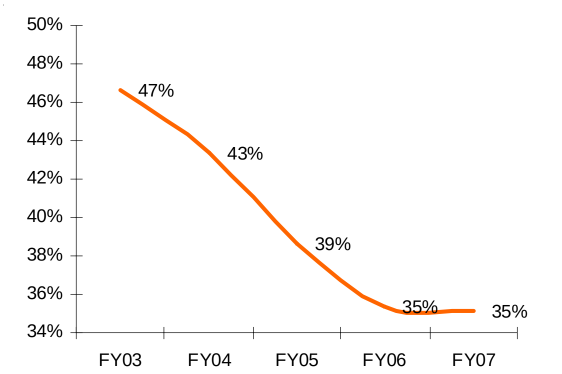
Britannia back on track in biscuits

Britannia's performance in biscuits (89% of sales) is back on track after it has witnessed stabilisation in its market share over the last 2 years. The company's market share had dropped steeply from 46.7% in FY03 to 35.2% in FY07 in value terms. Most of the market share loss was during FY03-06, when it declined from 46.7% to 35.3%. The market share loss was primarily to smaller and regional players and to the tune of around 3% to ITC. However, in FY07, its market share in value terms has stabilised at 35%. Further, the company has seen an increase in volume market share to 30% in FY07 after the volume share dropped from 40% to 29% during FY03-06. Therefore, we can infer that the company has witnessed stabilisation in market share, backed by the regaining of market share in the economy segment through its key brand, Tiger. Additionally, we also understand that it is witnessing higher growth in the premium category over the mid-segment. A large product portfolio, spanning across price points, will play a very important role in Britannia being able to regain market share in this industry, whose contribution to the overall FMCG sector has been increasing over the last 5 years.

Biscuits industry growth



Britannia's Market share in biscuits



Source: Industry

We believe that the growth across categories would largely happen in the economy segment, with pressure on consumer wallets.

Out-performers during FY03-05 could do better in FY10e

A comparison of growth rates across categories between the period of slowdown and the period revival and healthy growth could be indicative of the probable out-performers in the coming quarters. The coming year is expected to be trying times for the economy percolating into slowing down growth for the FMCG sector as a whole. Based on the growth during FY03-05, we believe that in the personal care segment, low penetrated and smaller categories such as value-added hair oil, shampoos, skin care and hair dye could be better performers over other categories. In the packaged foods segment, biscuits, milk foods and baby foods would continue to relatively outperform. Further, we believe that the growth across categories would largely happen in the economy segment, with pressure on consumer wallets. Therefore, we could witness a higher shift in mix towards lower priced segments. We could also see increased consumption in favour of small packs. Hence, we could witness companies across categories increasingly introducing small and low-priced packs to encourage consumption.

Category size and growth rates

	FY08 (INRm)	FY03-FY07 (% yoy)	FY03-05(% yoy)	FY05-07(% yoy)
Toothpastes	28,311	8.0	4.2	12.5
Coconut oil	13,634	9.6	6.0	17.6
Value added hair oil	20,735	17.7	13.6	26.0
Soaps	70,395	8.2	4.2	12.6
Detergents	84,965	9.2	5.6	14.9
Hair dye	8,519	20.0	22.9	28.3
Shampoos	22,146	13.0	13.4	19.6
Skin care	28,086	11.3	9.5	17.1
Noodles	8,181	9.4	10.2	13.5
Toothbrush	7,148	9.2	8.8	13.3
Chyawanprash	1,611	1.0	-3.0	3.8
Milk foods	7,411	3.8	4.2	4.5
Milk powder	4,910	6.0	4.8	8.0
Baby foods	3,922	4.8	7.6	4.7
Chocolates & Confectionary	36,882	7.3	-0.5	12.8
Biscuits	71,062	14.3	14.7	19.5
Toothpowder	6,088	3.6	-2.1	7.9

Source: Industry, Antique

Dominating companies in their key categories could outperform

We feel that in a scenario of slowing growth in the consumer demand, companies that have shown a consistent dominance in their key business categories would outperform their peers. Additionally, those with strong brands and growing share in the economy segment could witness relatively better growth over their peers in the FMCG sector. Nevertheless, those with a strong presence in the expected outperforming product categories could witness lower reduction in demand growth going forward.

We believe that Marico and Nestle would witness a lower impact of a probable downturn over their peers

Therefore, to sum up, we believe that Marico and Nestle would witness a lower impact of a probable downturn over their peers, due to dominating presence in their categories. Marico would benefit from its dominance in coconut oil, which contributes more than 80% to its profits. The company would also benefit from its niche positioning in the health-based refined edible oil segment, Saffola, which again is the second-largest contributor to its profits.

Nestle would benefit from its dominance in about 65% of its portfolio: milk and nutrition products, and prepared dishes and cooking aids. In the case of single-product companies, Colgate would ride on its economy brand, Cibaca, in toothpastes to sail through the probable slowdown. Britannia's could ride on its rejuvenated strength in premium and economy segments, and the lowering competition from aggressive competitors like ITC. Additionally, the drop in competition from smaller and unorganised players, due to the implementation of VAT and the removal of excise duty on a major portion of biscuits, could continue to work in favour of the biscuit major.

The current trend in hair colours is going against GCPL.

Godrej Consumer Products would witness benefits of the probable down-trading in soaps, due to its increasing share in the economy segment, while its powder hair dye business could also witness a revival with the probable shift in consumption towards small-priced packs and down-trading. However, taking in account the current trend in hair colours, which is going against GCPL, we have just factored in the positive impact on the company's soaps business.

Chyawanprash had witnessed a decline in sales during the slowdown in FY03-05.

For Dabur, the slowdown could benefit its oral care portfolio on account of its strong presence in economy toothpastes. However, the company could face pressure on its health supplement business, due to the slowdown in sales of Chyawanprash. Chyawanprash had witnessed a decline in sales during the slowdown in FY03-05.

Marico and Nestle are the most strongly placed due to their dominance in their key businesses.

We feel that Britannia and Colgate are strongly placed in their categories to ward off the impact of any slowdown in demand.

We feel that there are higher concerns over growth in key categories for Dabur and GCPL.

Out top picks in the pack of six companies - Marico Ltd and Nestle India

Structurally, we feel that Marico and Nestle are the most strongly placed companies in the pack of six companies, due to their dominance in their key businesses, without any meaningful competition in site. This ensures lower risks of negative deviation from our earnings estimates for these companies. Hence, these two companies are our top-picks, and we initiate coverage on Marico and Nestle with a BUY recommendation, with a target price of INR67 and INR1,642 respectively.

Additionally, we like Colgate Palmolive India Ltd (CPIL) and Britannia Industries Ltd (BIL) in view of the revival in their market shares in their respective key product categories posted during the last 3 years. We feel that these two companies are strongly placed in their categories to ward off the impact of any slowdown in demand in the coming year. Therefore, we initiate coverage BIL with a BUY recommendation and price target of INR1,549. Further in case of Colgate, though we are positive on the business of the company, we feel that the positives to an extent are factored in the stock price. Therefore, we intiate coverage on CPIL with a HOLD recommendation and a price target of INR452.

In the case of Godrej Consumer Products Ltd and Dabur India Ltd, though these two companies are expected to grow at a healthy rate and remain in line with their peers in CY09/FY10e, we feel that there are higher concerns over the growth in their key categories. In the case of Godrej Consumer Products, the company's market share loss in hair colour business, which contributes around 40% to its total profits, remains a concern. In the case of Dabur, concerns of a slowdown in health supplements and prevailing problems in foods remain a cause for concern. Further, the company's oral care business has shown its vulnerability to price changes in FY09. The company's key brand, Babool, had witnessed a volume slowdown due to price hikes in the brand. This also shows that regional players could impact their market share in a scenario of falling input prices through competitive pricing. We therefore, initiate coverage on Dabur and GCPL with a HOLD recommendation and a price target of INR90 and INR139 respectively.

Valuation Matrix

Company	Sales	EBITDA	EBITDA margin	PAT	PAT margin	EPS INR	PE (x)	EV/EBITDA (x)	EV/Sales (x)	RoCE
Marico Ltd										
FY2008	19,067	2,462	12.9%	1,585	8.3%	2.6	20.9	15.5	2.0	32%
FY2009e	24,069	2,852	11.8%	1,868	7.8%	3.1	17.8	13.4	1.6	29%
FY2010e	27,325	3,390	12.4%	2,269	8.3%	3.7	14.6	11.3	1.4	30%
Nestle India Ltd										
CY2007	35,044	6,963	19.9%	4,138	12.3%	44.7	30.2	17.9	3.6	148%
CY2008e	43,156	8,316	19.3%	5,318	12.6%	56.4	24.0	15.0	2.9	123%
CY2009e	48,311	9,791	20.2%	6,229	13.1%	65.7	20.6	12.8	2.6	113%
Godrej Consumer Products Ltd										
FY2008	11,026	2,145	19.5%	1,592	14.4%	7.1	18.3	14.3	2.8	55%
FY2009e	13,653	2,060	15.1%	1,636	12.0%	7.2	17.8	14.9	2.2	42%
FY2010e	15,242	2,620	17.2%	1,852	12.2%	8.2	15.8	11.7	2.0	42%
Dabur India Ltd										
FY2008	23,611	4,093	17.3%	3,339	14.1%	3.9	21.7	17.8	3.1	51%
FY2009e	27,660	4,692	17.0%	3,766	13.6%	4.4	19.2	15.5	2.6	46%
FY2010e	32,235	5,531	17.2%	4,318	13.4%	5.0	16.8	13.1	2.3	39%
Colgate Palmolive India Ltd										
FY2008	14,734	2,371	16.1%	2,327	15.8%	17.1	23.5	22.4	3.6	130%
FY2009e	16,797	2,685	16.0%	2,688	16.0%	19.8	20.4	19.8	3.2	120%
FY2010e	18,772	3,052	16.3%	3,082	16.4%	22.7	17.8	17.4	2.8	113%
Britannia Industries Ltd										
FY2008	25,848	2,317	9.0%	1,846	7.1%	77.3	16.8	14.1	1.3	24%
FY2009e	31,341	2,688	8.6%	2,225	7.1%	93.1	13.9	12.2	1.0	23%
FY2010e	35,281	3,184	9.0%	2,643	7.5%	110.6	11.7	10.3	0.9	24%

Marico Ltd

Oil rich...

BUY **CMP: INR 54** **Target Price: INR 67**

ANTIQUE

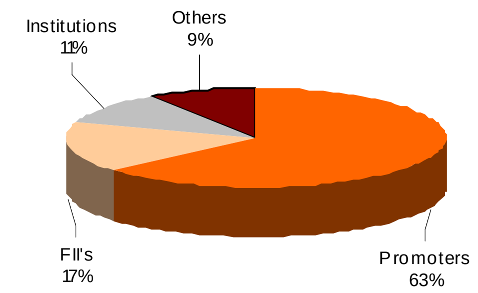
December 19, 2008 Strictly confidential

Market Data		
Sector	:	FMCG
Market Cap (INRm)	:	33
Market Cap (USDm)	:	0.70
O/S shares (m)	:	609
Free Float (m)	:	203
52-wk HI/LO (INR)	:	85/46
AvgDaily Vol	:	36,000
Face Value (INR)	:	-
Bloomberg	:	MRCO IN
Reuters	:	MRCO.BO

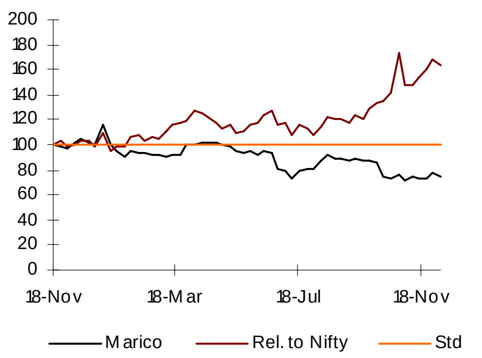
Price Performance

	1m	3m	6m	12m
Absolute	9	(8)	(14)	(20)
Relative	(5)	28	28	50

Shareholding Pattern



Price Performance Vs NIFTY



Investment Highlights

- Marico's proven pricing strength in coconut oil and dominating market share would be a key growth driver for the company.
- Led by launch of innovative edible oil under Saffola brand and growing health awareness, Saffola is expected to grow by a CAGR of 27% during FY08-10e.
- Backed by around 25% growth in Bangladesh and Middle East operations, and a 26% growth in the sales of Fiancee, Hair code and South African operations, we expect the international business to grow at a CAGR of 25.5% during FY08-10e to INR4.9bn.
- With a sharp drop in prices of palm oil, we believe that prices of copra would also decline and this would lead to an improvement in EBITDA margins.
- Kaya is expected to grow at a CAGR of 37% during FY08-10e.
- Sales are expected to grow by 20%CAGR to INR27.3bn during FY08-10e. PAT is expected to grow at a CAGR of 20% to INR2.27bn during the period.

Risks

- More-than-expected time required for copra prices to follow palm oil
- Economic slowdown could impact Kaya revenues

Valuation

At the CMP of INR54, the stock trades at 17.8x FY09e and at 14.6x FY10e earnings. We recommend a BUY at the current levels with a target price of INR67 implying a 24% upside from current levels.

Key financials

INRm	FY07	FY08	FY09e	FY10e	FY11e
Revenue	15,569	19,067	24,069	27,325	31,186
EBITDA	2,087	2,462	2,852	3,390	4,021
EBITDA margin (%)	13	13	12	12	13
EBITDA growth (%)	45	18	16	19	19
PAT	1,157	1,585	1,868	2,269	2,717
PAT growth %	9	37	18	21	20
EPS(INR)	1.9	2.6	3.1	3.7	4.5
EPS growth (%)	9	37	18	21	20
P/E	28.7	20.9	17.8	14.6	12.2
P/BV	17.2	10.5	7.1	5.0	3.8
EV/EBITDA	18.3	15.5	13.4	11.3	9.5
RoE (%)	60	50	40	34	30

Source: Antique

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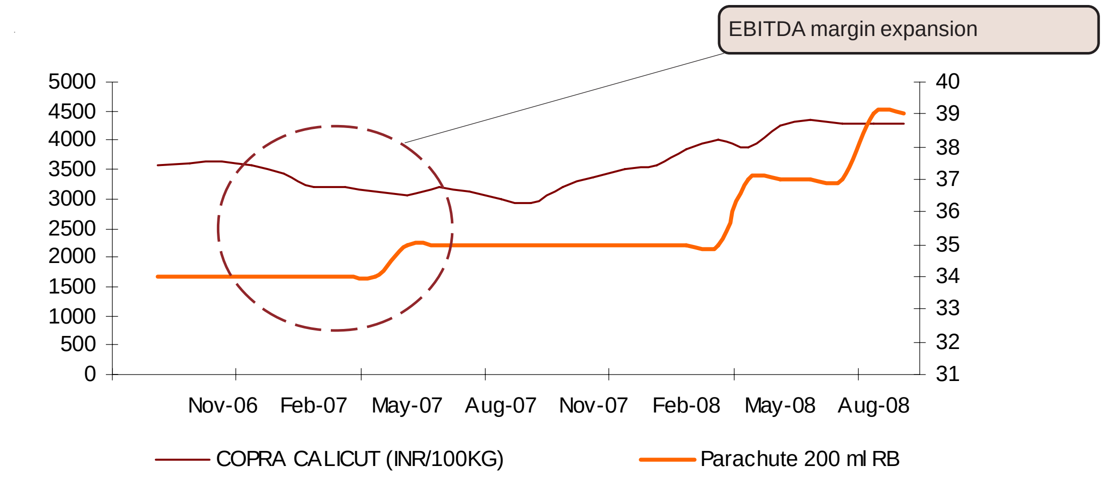
Investment arguments

Domination in coconut oil would provide stability in earnings growth

Parachute's market share has increased from 45.7% in FY05 to 46.2% in FY08.

Over the years, Marico has become the strongest player in the coconut oil category through its key brand, Parachute coconut oil. The strength of the brand could be gauged from the increase in its market share from 45.7% in FY05 to about 46.2% in FY08. Additionally, the company has gained a 10% market share in the coconut oil category through the acquisition of Nihar. This domination in the coconut oil category is important for Marico, given the fact that Parachute coconut oil is the leading contributor to the company's sales (33% of total sales) and profitability (over 80% of company profits). Retention of prices by this brand in a falling copra prices scenario led to substantial improvement in margins of 454 bps for Marico from 8.8% in FY05 to 12.9% in FY08. This was against the normal strategy of pricing parachute coconut oil in tandem with the change in copra prices. Despite the new pricing strategy, the fact that the brand has increased its market share during FY05-08, again proves the strength of the brand. Therefore, we infer that the dominating market share, and the proven strength would aid a stable volume growth of 8% even in a scenario of slowdown. Going forward, we believe that Parachute coconut oil sales will grow at a CAGR of 13% during FY08-10e to INR7,964m. During 1HFY09, the brand has recorded about 10% growth in volumes.

Movement in prices of Parachute coconut oil and copra



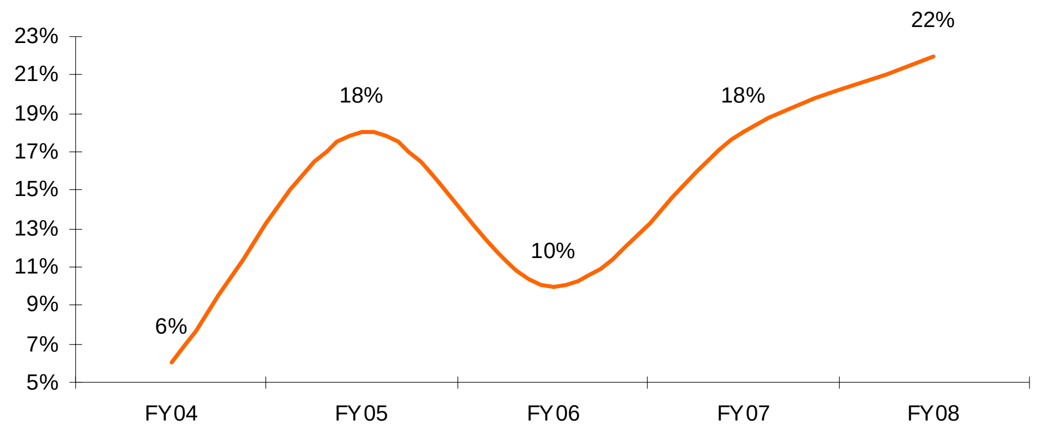
Source: Company,Antique

Growing health awareness would aid growth in Saffola

We expect Saffola to grow by a CAGR of 27% during FY08-10e, led by a volume growth of 17% (CAGR).

We believe that backed by the rising awareness for health, Marico's focused brand in the refined edible oil segment, Saffola, would outperform in the coming quarters. The brand forms 15% of the Marico's net sales, and contributes about 16% to its profits. The brand has grown at a CAGR of around 21% during FY06-08 to INR2,860m, and has carved out a niche in the refined edible oil category. Growth in Saffola has been largely led by its largest variant, Saffola Gold, with estimated sales of INR1,250m. Further, the consistent launch of innovative edible oil variants under the brand has aided its growth. In addition to the health-based edible oil products, the company has also strengthened the brand with the successful launch of health-based *atta* addictives for the control of cholesterol and diabetes. We expect Saffola to grow by a CAGR of 27% during FY08-10e, led by a volume growth of 17% (CAGR). The launch of products similar to *atta* additives under the health-based platform planned during the next 6-8 months would aid growth in the brand.

Saffola edible oil growth rate



Source: Company,Antique

Value-added hair oils to grow 20% during FY08-10e

Growth in value-added hair oils would be led by the perfumed hair oil segment, represented by Parachute Jasmine and Nihar.

Value-added hair oils are expected to grow at 20% during FY08-10e, led by about 25% growth in FY09e and 15% growth in FY10e. In FY09, the business is witnessing a volume growth of 20%. We believe that growth in value-added hair oils would be led by the perfumed hair oil segment, represented by Parachute Jasmine and Nihar. Further, continued growth in the non-sticky hair oils category and better performance in the *amla* category would aid growth in this business. In the coming year, Marico would be focusing on Shanti amla and Thanda oil (cooling oil) to drive growth in value-added hair oils. In Shanti amla, it would be focusing on strengthening brand sales in the west and some parts of northern India, backed by higher brand investments. In Thanda hair oil, it plans to extend the product to other parts of India, besides capitalising on its strong distribution network to gain market share in the cooling oil market.

International operations expected to grow at a CAGR of 25.5% CAGR during FY08-10e

International sales to grow backed by a 25.5% growth in Bangladesh and Middle East operations, and a 26% growth in sales of Fiancee, Hair code and South Africa.

The international business is expected to grow by a CAGR of 25.5% during FY08-10e to INR4,942m, backed by around 25% growth in Bangladesh and Middle East operations, and a 26% growth in the sales of Fiancee, Hair code and South Africa. Bangladesh, with sales of INR1.2bn, forms 40-45% of international operations, while Middle East operations at INR500m form about 16% of international operations. Egyptian operations are at INR884m, contributing about 28% to International operations. South African operations contributed around INR200m towards international operations in FY08. We believe that Bangladesh sales growth would be aided by continued growth in parachute coconut oil and higher growth in the soaps portfolio. The higher growth expected in soaps would be backed by higher investments and increase in distribution. Growth in soaps would be achieved in the coming years through market share gains from regional players. Marico plans to capitalise on its strong distribution network in Bangladesh, reaching out to about 370,000 outlets, second only to Unilever's distribution network, which is reaching out to around 600,000 outlets. In Egyptian operations growth would be led by higher focus on extending sales to northern African countries like Libya, Morocco and Sudan as well as West Asian countries like Syria and Lebanon. Additionally, the re-launch of Fiancée and restructuring of distribution, would aid the growth in operations. Growth in South African operations would be driven by growth in hair care and OTC healthcare.

Region	% of total international sales
Bangladesh	45
Middle East	16
Egypt	28
South Africa	6

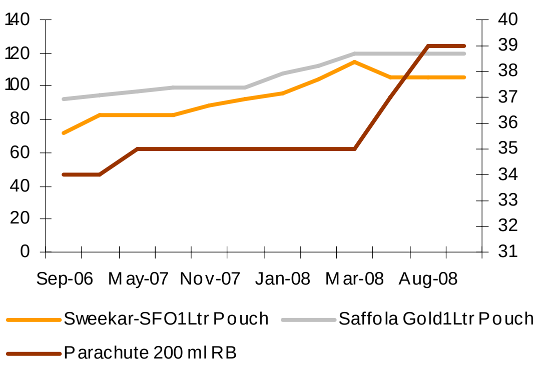
Source: Company

Expected drop in copra prices would aid profitability

Marico's gross margins are expected to improve by 80 bps to 46.1%, and EBITDA margins are expected to improve by 56 bps to 12.5% in FY10e.

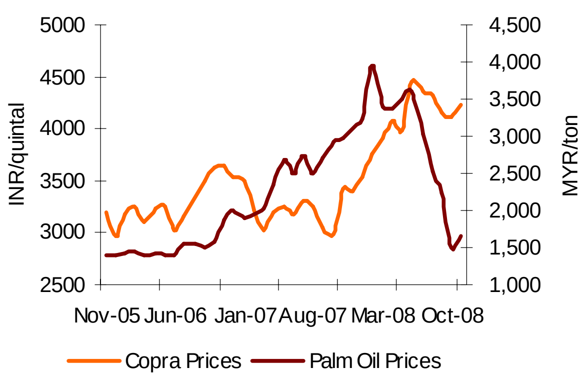
With spiraling prices of palm oil, Marico has witnessed a sharp rise in prices of key raw materials like copra, safflower and sunflower during the past 2 years. Of the key raw materials, copra stands at about 24% of Marico's net sales, and has risen by about 30% during the year. As a result, despite price hikes by the company during the last 2 years, Marico has witnessed a decline in gross margins of about 104 bps to 47.3% during FY08. During 1HFY09, gross margins have dropped by 215 bps to 46%. We believe that the current input cost inflation would lead to around 203 bps decline in gross margins to 45.3% in FY09 and about 106 bps decline in EBITDA margins to 11.8%. However, with the sharp drop in prices of palm oil, we believe that prices of Marico's key raw materials would decline in the coming years. Consequently, Marico's gross margins are expected to improve by 80 bps to 46.1% in FY10e, and EBITDA margins are expected to improve by 56 bps to 12.5%. The expected improvement in margins would be after the partial pass on the input cost deflation.

MRP Trend (INR)



Source: Company,Antique

Copra prices follow Palm oil prices



Source: Company,Antique

Kaya to grow at a CAGR of 37% during FY08-10e.

Kaya skin care has already broken even, and could generate EBIT margins of 15-18% at mature levels.

Kaya skin care plans to add about 15 clinics per annum, with an investment per clinic of INR12m. In FY09e, the company may end up adding 16-17 clinics to its FY08 number of 65 clinics. Kaya skin care has already broken even and could generate EBIT margins of 15-18% at mature levels. The company's key focus in Kaya skin care would be to improve its accessibility for higher client acquisition. In Kaya Life, the company is planning to step up the marketing initiatives, and improve its visibility to increase its client acquisition. We expect Kaya revenues to grow at 37% CAGR during FY08-10e to INR 1,915m.

Revenues expected to grow by a CAGR of 20%, PAT by a CAGR of 20% during FY08-10e

Sales are expected to grow during FY08-10e by a CAGR of 20% to INR27.3bn. This would be driven by a CAGR 13% in parachute coconut oil to INR7.9bn, a CAGR of 27.4% in Saffola edible oil to INR4.6bn, a CAGR 20% in value added hair oils to INR2.8bn and a CAGR of 25.5% in international sales to INR4.9bn. EBIDTA is expected to grow at a CAGR of 17.3% to INR3.4bn during the period. EBITDA margins are expected to decline by 106bps to 11.8% in FY09e due to higher raw material cost, while in FY10e, EBITDA margins are expected to increase by 56bps to 12.4% aided by better a drop in raw material cost. Profit after tax is expected to grow by a CAGR of 20% to INR2.27bn during the period.

Sales break up

INRm	FY08	FY09e	FY10e	CAGR(FY08-10e)
Parachute Oil	6,197	7,374	7,964	13.4
Hair Oil	1,980	2,475	2,846	19.9
Nihar	1,260	1,812	1,957	24.6
Kaya Clinic sales	1,017	1,425	1,915	37.3
Saffola	2,860	4,004	4,645	27.4
International sales	3,138	4,051	4,942	25.5
Others	2,617	2,928	3,056	8.1
Sales	**19,067**	**24,069**	**27,325**	**19.7**

Source: Antique

Sales mix(%)

	FY08	FY09e	FY10e
Parachute Oil	32	31	29
Hair Oil	10	10	10
Nihar	7	8	7
Kaya Clinic sales	5	6	7
Saffola	15	17	17
International sales	16	17	18
Others	14	12	11
Total	**100**	**100**	**100**

Source: Antique

Risks

More-than-expected time required for copra prices to follow palm oil

Our thesis of profitability improvement for Marico depends on the expectations of a drop in prices of key raw material like copra. Therefore, any delay witnessed in the drop in prices of copra may impact profitability improvement expectations for the company.

Economic slowdown could impact Kaya revenues

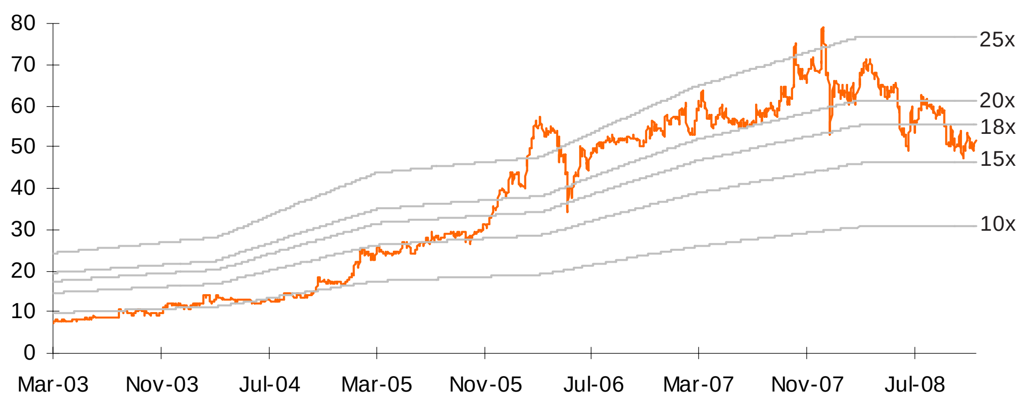
Kaya skin care services mainly focuses on providing skin care services to the premium class. Therefore, any slowdown in the economy and resultant slowdown in income growth could lead to a slower-than-expected growth in Kaya revenues.

Valuation

One-year forward PE valuation implies a target price of INR67

At the CMP of INR54, the stock is trading at 17.8 FY09e earnings and at 14.6xFY10e earnings. Historically, the stock has traded in a PE band of 9x-23x. The stock has significantly re-rated from a one-year forward PE of 10.8x in FY05 to 23.1x in FY07, with a substantial improvement in EBITDA margins during FY05-07. We believe that in view of the strong brand strength of its key sales and profit generator, Parachute coconut oil complemented by its niche positioning in the health-based refined edible oil business, we believe that the company would be able to sustain the improved EBITDA margins of 12-12.5%. This, in turn, would aid sustenance of valuations of the company. Therefore, by applying the 5-year average one-year forward PE 18x, we arrive at a target price of INR67. We therefore recommend a BUY on the stock at the current levels.

PE band



Source: Bloomberg , Antique

Financials (INRm)

Profit & Loss account

Year ended 31st March	2007	2008	2009e	2010e	2011e
Revenues	15,569	19,067	24,069	27,325	31,18
Expenses	13,482	16,605	21,217	23,935	27,16
EBITDA	**2,087**	**2,462**	**2,852**	**3,390**	**4,02**
Depreciation & amortisation	522	308	320	360	370
EBIT	**1,565**	**2,155**	**2,532**	**3,030**	**3,651**
Interest expense	206	276	345	340	35
Other income	102	67	100	100	120
Profit before tax	**1,461**	**1,945**	**2,287**	**2,790**	**3,42**
Taxes incl deferred taxation	304	360	418	52	704
Profit after tax	**1,129**	**1,691**	**1,868**	**2,269**	**2,727**
Adjusted profit after tax	**1,157**	**1,585**	**1,868**	**2,269**	**2,71**
Recurring EPS (INR)	**1.9**	**2.6**	**3.1**	**3.7**	**4.5**

Balance Sheet

Year ended 31st March	2007	2008	2009E	2010E	2011E
Share Capital	609	609	609	609	609
Reserves & Surplus	1,315	2,537	4,058	5,979	8,343
Networth	**1,924**	**3,146**	**4,667**	**6,588**	**8,952**
Debt	2,510	3,579	4,067	3,467	2,867
Capital Employed	4,433	6,726	8,733	10,055	11,81
Gross Fixed Assets	2,779	3,561	5,061	6,561	8,061
Accumulated Depreciation	**(1,394)**	**(1,635)**	**(1,955)**	**(2,315)**	**(2,685)**
Net Assets	1,385	1,926	3,106	4,246	5,376
Capital work in progress	**719**	**1,490**	**1,183**	**1,183**	**1,183**
Investments	**0**	**0**	**0**	**0**	**0**
Current Assets, Loans & Advances					
Inventory	2,215	2,605	2,300	2,300	2,300
Debtors	643	863	920	920	920
Cash & Bank balance	429	753	2,291	2,804	3,902
Loans & advances and others	717	1,061	1,061	1,061	1,061
Current Liabilities & Provisions					
Creditors	2,679	2,560	2,600	2,600	2,600
Other liabilities & provisions	147	392	282	322	395
Net Current Assets	1,177	2,330	3,690	4,163	5,188
Deferred tax assets/(liabilities)	1,151	981	742	451	60
Misc.Expenses	1	-	13	13	13
Application of Funds	4,433	6,726	8,733	10,055	11,819

Per share data

Year ended 31st March	2007	2008	2009E	2010E	2011E
No. of shares (m)	609.0	609.0	609.0	609.0	619.0
BVPS (INR)	3.2	5.2	7.7	10.8	14.5
CEPS (INR)	1.0	2.1	2.5	3.1	3.8
DPS (INR)	0.6	0.5	0.5	0.5	0.5

Margins (%)

Year ended 31st March	2007	2008	2009E	2010E	2011E
EBITDA	13%	13%	12%	12%	13%
EBIT	10%	11%	11%	11%	12%
PAT	7%	8%	8%	8%	9%

Source: Antique

Key Assumptions

Year ended 31st March	2007	2008	2009e	2010e	2011e
Parachute coconut oil sales (INRm)	5,543	6,197	7,374	7,964	8,601
Saffola sales (INRm)	2,159	2,860	4,004	4,645	5,481
Raw material as % of net sales	51.6%	52.7%	54.7%	53.9%	53.7%
Advertisement as % of net sales	13.6%	12.9%	12.5%	12.8%	12.6%
Other expenditure as % of net sales	21.3%	21.5%	21.0%	20.9%	20.8%

Cash Flow Statement

Year ended 31st March	2007	2008	2009E	2010E	2011E
EBIT	1,565	2,155	2,532	3,030	3,651
Depreciation & amortisation	522	308	320	360	370
Interest expense	(206)	(276)	(345)	(340)	(350)
(Inc)/Dec in working capital	(83)	(829)	178	40	73
Tax paid	(304)	(360)	(418)	(521)	(704)
Cash flow from operating activities	1,494	997	2,266	2,570	3,041
Capital expenditure	2,092	(1,198)	(1,193)	(1,500)	(1,500)
Inc/(Dec) in investments	(185)	-	-	-	-
Income from investments	102	67	100	100	120
Cash flow from investing activities	2,009	(1,131)	(1,093)	(1,400)	(1,380)
Inc/(Dec) in share capital	29	-	-	-	-
Inc/(Dec) in debt	112	1,070	487	(600)	(600)
Dividends paid	(445)	(347)	(347)	(347)	(353)
Others	(3,183)	(265)	225	290	390
Cash flow from financing activities	(3,488)	457	365	(657)	(563)
Net cash flow	15	323	1,538	513	1,098
Opening balance	415	429	753	2,291	2,804
Closing balance	429	753	2,291	2,804	3,902

Growth Indicators

Year ended 31st March	2007	2008	2009E	2010E	2011E
Revenue	36%	22%	26%	14%	14%
EBITDA	45%	18%	16%	19%	19%
PAT	9%	37%	18%	21%	20%
EPS	9%	37%	18%	21%	20%

Valuation (x)

Year ended 31st March	2007	2008	2009E	2010E	2011E
PE	28.7	20.9	17.8	14.6	12.2
P/BV	17.2	10.5	7.1	5.0	3.8
EV/EBITDA	18.3	15.5	13.4	11.3	9.5
EV/Sales	2.5	2.0	1.6	1.4	1.2
Dividend Yield (%)	1.2	0.9	0.9	0.9	0.9

Financial Ratios

Year ended 31st March	2007	2008	2009E	2010E	2011E
RoE	60%	50%	40%	34%	30%
RoCE	35%	32%	29%	30%	31%
Debt/Equity (x)	1.3	1.1	0.9	0.5	0.3
EBIT/Interest (x)	(7.6)	(7.8)	(7.3)	(8.9)	(10.4)

Nestle India Ltd

Cerelac n Maggi secure the Nest

BUY **CMP: INR 1,352** **Target Price: INR 1,642**

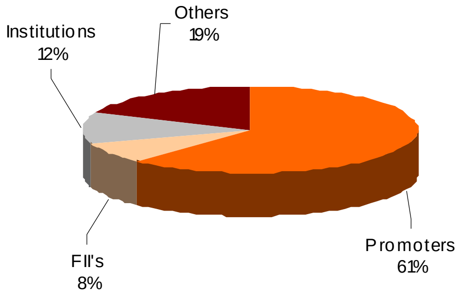
December 19, 2008 Strictly confidential

Market Data		
Sector	:	FMCG
Market Cap (INRm)	:	130
Market Cap (USDm)	:	2.76
O/S shares (m)	:	96
Free Float (m)	:	37
52-wk HI/LO (INR)	:	1,870/1,193
Avg Daily Vol	:	8,000
Face Value (INR)	:	10
Bloomberg	:	NEST IN
Reuters	:	NEST .BO

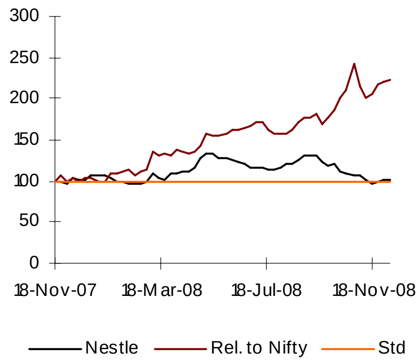
Price Performance

	1m	3m	6m	12m
Absolute	1	(19)	(20)	(1)
Relative	(12)	13	(20)	87

Shareholding Pattern



Price Performance Vs NIFTY



Investment Highlights

- Nestle's dominant market share and continued innovation in the milk product category would help this business to grow at steady CAGR of 15% during CY07-09e.
- We expect the prepared dishes and cooking aids category to be a key growth driver for Nestle going ahead led by an increase in penetration levels and launch of innovative variants.
- Led by smaller priced units and higher urbanization, the chocolates and confectionary business is expected to record a CAGR of 20% during CY07-09e.
- The decline in prices of key raw materials such as milk solids, vegetable oil prices and other commodities, would lead to higher profitability for the company.
- Sales are expected to grow by a CAGR of 17.4% during CY07-09e to INR48.3bn. Profit after tax is expected to grow by 21.1% CAGR to INR6.3bn during the period.

Risks

- Entry of bigger players like ITC and private labels in instant noodles
- Slowdown could lead to higher-than-expected impact on overall sales

Valuation

- At the CMP of INR1352, the stock trades at 24x CY08e and at 20.6x CY09e earnings. Our PE based valuation provides us a target price of INR1,642, fetching an appreciation of 21% from the current levels.

Key financials

	CY06	CY07	CY08e	CY09e	CY10e
Revenue	28,161	35,044	43,156	48,311	56,281
EBITDA	5,385	6,963	8,316	9,767	11,517
EBITDA margin (%)	19	20	19	20	20
EBITDA growth (%)	3	29	19	17	18
PAT	3,269	4,313	5,437	6,332	7,532
PAT growth (%)	6	32	26	16	19
EPS(INR)	33.9	44.7	56.4	65.7	77.3
EPS growth (%)	(1)	32	26	16	18
P/E	39.9	30.2	24.0	20.6	17.5
P/BV	33.5	31.2	21.8	16.9	13.5
EV/EBITDA	23.2	17.9	15.0	12.8	10.8
RoE (%)	84	103	91	82	77

Source: Antique

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Investment arguments

Milk and nutrition to witness steady growth of 15% CAGR during CY07-09e

During CY07-09e, the business is expected to grow at a CAGR of 15% to INR20.7bn.

Nestle's milk and nutrition business, the largest contributor to its sales (43% of net sales), has been a consistent performer over the last 7 years. This business recorded a steady growth of 9.9% (CAGR) even during the slowdown period (CY02-CY05). Over the last 2 years (CY05-07), the business has witnessed accelerated growth and has grown at a CAGR of 16%, with a higher growth at 23% in CY07. In CY08, in the first 6 months, this business category posted an accelerated growth of 28.6%. However the growth witnessed during CY07 and CY08 has been primarily led by price hikes to the tune of 12-13% to offset spiralling prices of key raw material milk solids. Therefore, in a scenario of a probable slowdown in the coming year, we expect that the category would grow at a CAGR of 10% CY08-10e in lieu of price hikes. During CY07-09e, the business is expected to grow at a CAGR of 15% to INR20.7bn. We expect that the business category would grow at its inherent average growth and would be one of the least impacted product categories from the probable slowdown. We further believe that Nestle's dominant market share and its continued innovation in the milk product category would aid the expected steady growth in this business.

Prepared dishes and cooking aids to post a CAGR of 27%during CY07-09e

Nestle is the leading player in noodles, with a market share of about 59%.

Prepared dishes and cooking aids sales has been the key driver of growth for Nestle India over the last 5 years. Particularly during the last 3 years, this business category has grown at a CAGR of 25%, leading to an increase in its contribution to sales from 19% of net sales to 21% of net sales in CY07. The strong growth in sales has been on the back of an increase in penetration and launch of innovative variants in the instant noodles category. In the noodles market, Nestle is the leading player with a market share of about 59%. Further, the company has also made launches in the soup category, where the company is the second-biggest player. In CY08e, we estimate the business to grow at 34% to INR10.4bn. On the other hand, in CY09e, citing a slowdown, we expect the business to grow at 20% to INR12.6bn.

Innovation and small-priced units to aid growth in chocolates and confectionaries

We believe that the chocolates and confectionaries category will grow at a CAGR of 20% during CY07-09e to INR8.2bn.

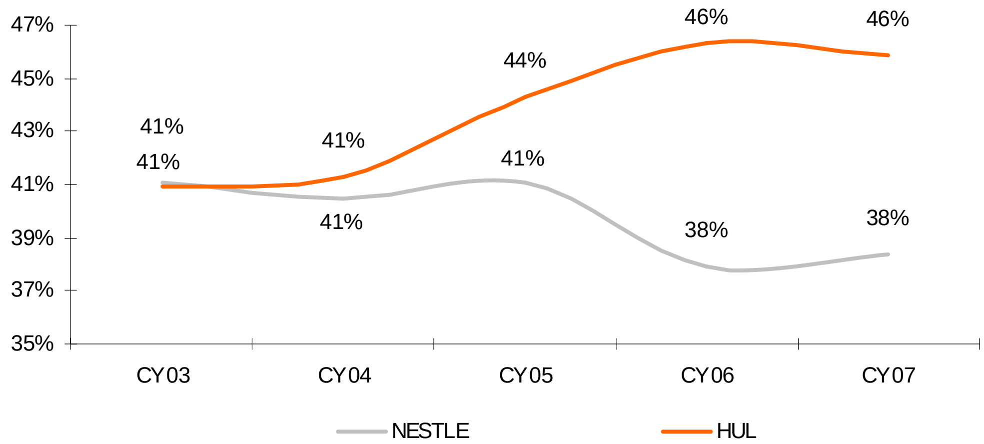
Chocolates and confectionaries (16% of net sales) have witnessed a strong acceleration in growth, particularly over the last 2 years. The business category has witnessed a CAGR of 22% during CY05-07 as compared with the 6% CAGR during CY02-05. The acceleration, we believe, has been on the back of introduction of small-priced units and higher urbanisation, both leading to higher penetration. The strong volume growth of 17% CAGR, witnessed during CY05-07, is indicative of the rising contribution of small-priced units. Going forward, we believe that the business category, even in a slowdown, would grow at a higher rate over the average growth during CY02-05, backed by small-priced units across chocolate bars. We believe that the business category would grow at 25% to INR7.1bn in CY08e, while it is expected to grow by 15% to INR8.2bn in CY09e.

Beverages to grow at a CAGR of 9% during CY07-09e

Nestle's market share in coffees has declined from 41.1% in CY03 to 38.4% in CY07.

Nestle's sale of beverages (20%of net sales) has witnessed a slowdown in growth over the last 5 years. This slowdown in growth was due to the loss of market share in the coffee division. Its market share in coffee has declined from 41.1% in CY03 to 38.4% in CY07, while HUL's market share has increased from 40.9% in CY03 to 45.9% in CY07. Overall, the coffee industry has grown at a stable CAGR of 10-12% during CY03-07. Going forward, we expect the growth in this industry to remain stable at 9%. We believe that Nestle's beverage segment would grow in line with the industry at a CAGR of 9% to INR8.5bn during CY07-09e.

NESTLE's market share in coffee



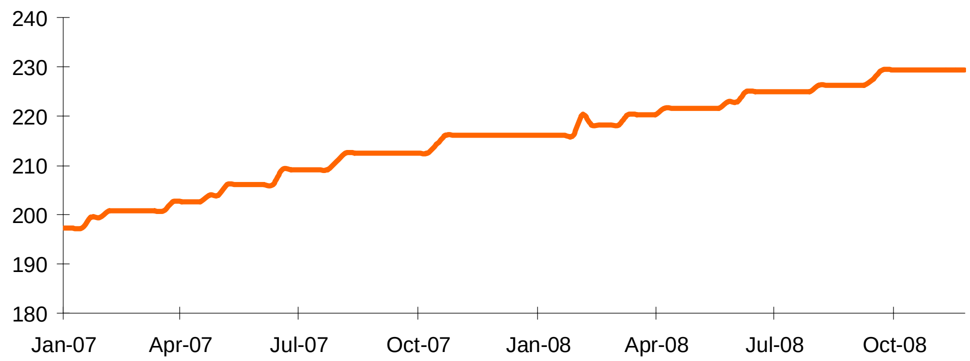
Source: Industry

Profitability would improve with drop in prices of key raw materials during CY07-09e

We expect the EBITDA margins to improve by 95bps YoY to 20.2% in CY09e.

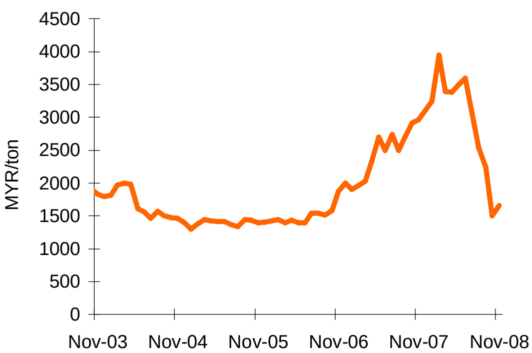
We expect the company's profitability to improve in CY09e, with a drop in commodity prices. It has been facing pressure from rising prices of key raw materials like vegetable oil, wheat and milk. Milk and milk concentrate, forming the largest raw material for Nestle at 16% of net sales (31% of milk and milk concentrate sales), has grown at a CAGR of 25% during CY05-07 as against the growth of 16% (CAGR) in sales of milk products and nutrition during the same period. Further, the cost of wheat flour (14% of prepared dishes and cooking aids sales) and the cost of vegetable oil (16% of prepared dishes and cooking aids sales) for Nestle grew by a CAGR of 43% and 40%, respectively, during CY05-07 as against a 25% growth in sales of prepared dishes and cooking aids. Also, green coffee, the key raw material for instant coffee (22% of beverages sales), grew at a CAGR of 24% during CY05-07 as against the 11% growth in sales of beverages during the same period. As a result, the raw material cost witnessed an increase of 120 bps in CY07. The company has been facing pressure from higher raw material prices in CY08 as well, due to which we expect the raw material cost for the year to rise by about 114 bps to 49.2% of net sales. However, with the steep decline in vegetable oil prices and majority of the commodities, we feel that Nestle would get respite on the raw material cost front. Therefore, we expect the raw material cost of the company to decline by about 99 bps to 48.2% of net sales in CY09e, leading to an improvement in EBITDA margins of 95 bps to 20.3%.

Milk Price Index(Component of WPI)



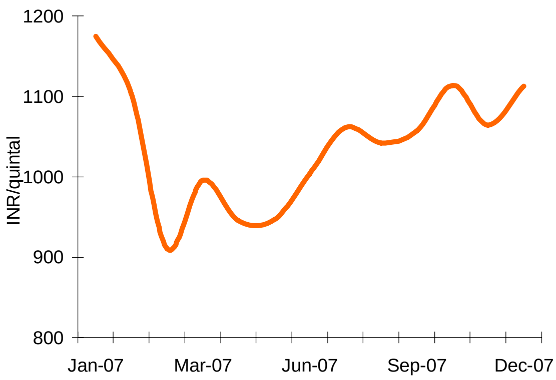
Source: Government Of India

Palm Oil price



Source: Bloomberg , Antique

Wheat price



Source: NCDEX , Antique

Revenues expected to grow by a CAGR of 17.4%, PAT by a CAGR of 21.1%

Sales are expected to grow during CY07-09e by a CAGR of 17.4% to INR48.3bn. This would be driven by a CAGR 27% in prepared dishes and cooking aids to INR12.6bn, a CAGR of 20% in chocolates and confectionary to INR8.2bn and a CAGR of 14.7% in milk products and nutrition to INR20.7bn. EBIDTA is expected to grow at a CAGR of 18.4% to INR9.8bn during the period. EBITDA margins are expected to decline by 60 bps to 19.3% in CY08e due to higher raw material cost, while in CY09e, EBITDA margins are expected to increase by 95 bps to 20.2% aided by better product mix and a drop in raw material cost. Profit after tax is expected to grow by a CAGR of 21.1% to INR6.3bn during the period.

Sales Break up (INRm)	CY07	CY08e	CY09e	CAGR(CY07-09e)
Milk Products and Nutrition (Total)	15756	19094	20717	14.7
Beverages	7,219	8,162	8,573	9.0
Prepared Dishes and Cooking Aids	7,811	10,438	12,563	26.8
Chocolate and confectionary	5,686	7,096	8,186	20.0
Sales	**36,472**	**44,789**	**50,039**	**17.1**

Sales Mix (%)	CY07	CY08e	CY09e
Milk Products and Nutrition (Total)	43	43	41
Beverages	20	18	17
Prepared Dishes and Cooking Aids	21	23	25
Chocolate and confectionary	16	16	16

Source: Company,Antique

Risks

Entry of bigger players like ITC and private labels in instant noodles

Nestle's domination could be challenged by the entry of a big player like ITC. With its strong brand, procurement and distribution network in place, the next logical foray in the packaged foods business for ITC could be instant noodles. Instant noodles would provide a lucrative market for ITC with the lack of strong national player except Nestle. Therefore, ITC could aggressively enter this packaged food category, backed by its high-quality wheat procurement. Additionally, value retailer giants such as Pantaloon, More and Reliance, among others are planning to get in to the noodles segment for a higher contribution from private labels in their total sales. However, currently the more formidable probable competitor, ITC, is primarily focusing on reducing losses in packaged foods, besides grappling with establishing itself in the personal care. In such a scenario, we may not see any new product foray by the company in the short term.

Slowdown could lead to higher-than-expected impact on overall sales

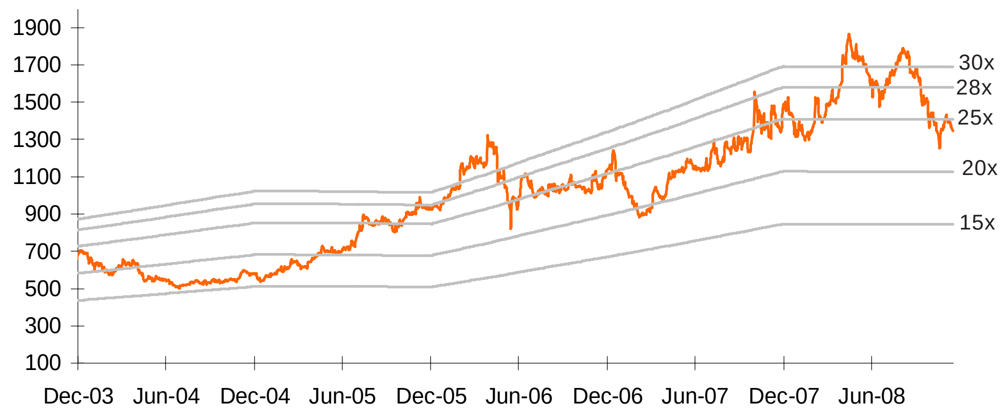
Two of Nestle's key product categories, noodles and chocolates and confectionaries, though consumed at the mass level, are still discretionary product categories. Therefore, these categories face the risk of a slowdown in sales in a scenario of probable slowdown. However, we believe that a majority of these products would be sold in small-priced units, thereby minimizes the risk of slowdown.

Valuation

One-year forward PE valuation implies a price target of INR1,642

At the CMP of INR1352, the stock has been trading at 24.0xCY08e earnings and at 20.6x CY09e. Historically, the stock has traded in a PE band of 18.3x-27.3x. The average one-year forward PE for the stock during CY04-08 stands at 23.6x. We believe that given the domination of the company in its key categories, ensuring an out-performance in the respective product categories, and Nestle’s consistent performance during the slowdown in CY03-05, even in a slowdown the stock would trade at a premium over its 5-year average valuations and maintain the current valuations. Therefore, by applying the current one-year forward PE of 25x, we arrive at a price target of INR1,642 providing an upside of 21% from the current levels.

PE Band



Source: Bloomberg , Antique

Financials (INR m)

Profit & Loss account

Year ended 31st December	2006	2007	2008E	2009E	2010E
Revenues	28,161	35,044	43,156	48,311	56,281
Expenses	22,776	28,081	34,841	38,544	44,765
EBITDA	5,385	6,963	8,316	9,767	11,517
Depreciation & amortisation	663	747	920	1,000	1,050
EBIT	4,722	6,215	7,396	8,767	10,467
Interest expense	4	9	20	20	20
Other income	206	254	330	480	490
Profit before tax	4,924	6,461	7,706	9,227	10,937
Taxes incl deferred taxation	1,654	2,148	2,269	2,894	3,404
Profit after tax	3,151	4,138	5,318	6,213	7,413
Adjusted profit after tax	3,269	4,313	5,437	6,332	7,532
Recurring EPS (INR)	33.9	44.7	56.4	65.7	77.3

Balance Sheet

Year ended 31st December	2006	2007	2008E	2009E	2010E
Share Capital	964	964	964	964	964
Reserves & Surplus	2,925	3,220	5,021	6,754	8,814
Networth	3,889	4,184	5,985	7,718	9,778
Debt	163	29	29	29	29
Capital Employed	4,052	4,213	6,014	7,747	9,807
Gross Fixed Assets	10,583	11,798	12,798	13,798	14,798
Accumulated Depreciation	(5,165)	(5,780)	(6,700)	(7,700)	(8,750)
Net Assets	5,418	6,018	6,098	6,098	6,048
Capital work in progress	**382**	**737**	**228**	**228**	**228**
Investments	**778**	**944**	**944**	**944**	**944**
Current Assets, Loans & Advances					
Inventory	2,762	4,012	5,011	5,597	6,255
Debtors	558	535	675	754	877
Cash & Bank balance	764	378	3,312	6,686	10,530
Loans & advances and others	1,270	1,454	1,424	1,424	1,424
Current Liabilities & Provisions					
Creditors	3,706	4,600	5,796	6,370	7,391
Other liabilities & provisions	3,983	4,978	5,451	7,011	8,300
Net Current Assets	(2,335)	(3,199)	(825)	1,080	3,395
Deferred tax assets/(liabilities)	(192)	(287)	(431)	(604)	(808)
Misc.Expenses					
Application of Funds	4,052	4,213	6,014	7,747	9,807

Per share data

Year ended 31st December	2006	2007	2008E	2009E	2010E
No. of shares (m)	96.4	96.4	96.4	96.4	97.4
BVPS (INR)	40.3	43.4	62.1	80.0	100.4
CEPS (INR)	27.0	37.0	46.8	55.3	66.5
DPS (INR)	25.5	33.6	33.0	42.7	50.3

Margins (%)

Year ended 31st December	2006	2007	2008E	2009E	2010E
EBITDA	19%	20%	19%	20%	20%
EBIT	17%	18%	17%	18%	19%
PAT	12%	12%	13%	13%	13%

Source: Antique

Key Assumptions

Year ended 31st December	2006	2007	2008E	2009E	2010E
Revenues (INRm)					
Milk products and nutrition	12,857	15,756	19,094	20,717	23,269
Prepared dishes and cooking aids	5,980	7,811	10,438	12,563	15,548
Chocolates and confectionary	4,557	5,686	7,096	8,186	9,685
Raw material as % of net sales	47%	48%	49%	48%	48%

Cash Flow Statement

Year ended 31st December	2006	2007	2008E	2009E	2010E
EBIT	**4,722**	**6,215**	**7,396**	**8,767**	**10,467**
Depreciation & amortisation	663	747	920	1,000	1,050
Interest expense	(4)	(9)	(20)	(20)	(20)
(Inc)/Dec in working capital	506	478	560	1,469	1,530
Tax paid	(1,654)	(2,148)	(2,269)	(2,894)	(3,404)
Cash flow from operating activities	**4,232**	**5,284**	**6,587**	**8,321**	**9,622**
Capital expenditure	(1,242)	(1,570)	(491)	(1,000)	(1,000)
Inc/(Dec) in investments	267	(166)	-	-	-
Income from investments	206	254	330	480	490
Cash flow from investing activities	**(770)**	**(1,481)**	**(161)**	**(520)**	**(510)**
Inc/(Dec) in share capital	-	-	-	-	-
Inc/(Dec) in debt	20	(134)	-	-	-
Dividends paid	(2,803)	(3,688)	(3,723)	(4,692)	(5,581)
Others	(281)	(367)	231	265	314
Cash flow from financing activities	**(3,065)**	**(4,189)**	**(3,491)**	**(4,427)**	**(5,268)**
Net cash flow	**397**	**(386)**	**2,934**	**3,374**	**3,844**
Opening balance	366	764	378	3312	6686
Closing balance	**764**	**378**	**3,312**	**6,686**	**10,530**

Growth Indicators

Year ended 31st December	2006	2007	2008E	2009E	2010E
Revenue	14%	24%	23%	12%	16%
EBITDA	3%	29%	19%	17%	18%
PAT	6%	32%	26%	16%	19%
EPS	-1%	32%	26%	16%	18%

Valuation (x)

Year ended 31st December	2006	2007	2008E	2009E	2010E
PE	39.9	30.2	24.0	20.6	17.5
P/BV	33.5	31.2	21.8	16.9	13.5
EV/EBITDA	23.2	17.9	15.0	12.8	10.8
EV/Sales	4.4	3.6	2.9	2.6	2.2
Dividend Yield (%)	1.9	2.5	2.4	3.2	3.7

Financial Ratios

Year ended 31st December	2006	2007	2008E	2009E	2010E
RoE	84%	103%	91%	82%	77%
RoCE	117%	148%	123%	113%	107%
Debt/Equity (x)	0.0	0.0	0.0	0.0	0.0
EBIT/Interest (x)	(1071.2)	(727.4)	(369.8)	(438.3)	(523.3)

Britannia Industries Ltd

Tiger makes a Good day

BUY **CMP: INR 1,299** **Target Price: INR 1,549**

ANTIQUE

December 19, 2008 Strictly confidential

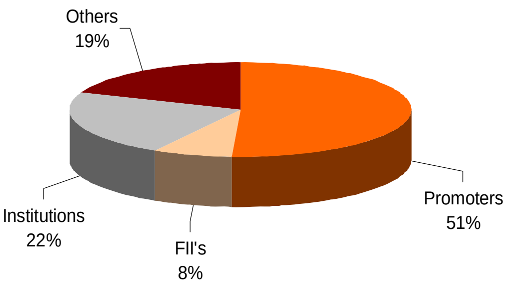
Market Data

Market Data		
Sector	:	FMCG
Market Cap (INRm)	:	31
Market Cap (USDm)	:	0.66
O/S shares (m)	:	24
Free Float (m)	:	11
52-wk HI/LO (INR)	:	1,650/980
Avg Daily Vol	:	300
Face Value (INR)	:	10
Bloomberg	:	BRIT IN
Reuters	:	BRIT.BO

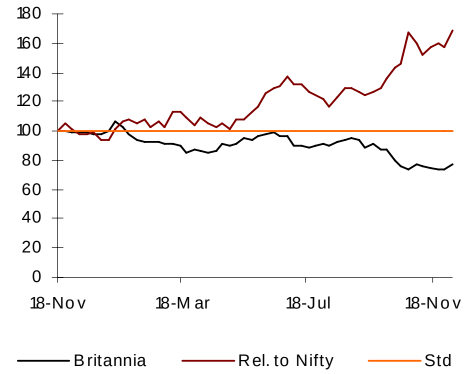
Price Performance

	1m	3m	6m	12m
Absolute	18	(6)	(11)	(13)
Relative	2	31	34	65

Shareholding Pattern



Price Performance Vs NIFTY



Investment Highlights

- After witnessing consistent drop in market share for 4 years, Britannia's market share has stabilized over the last two years both in value and volume terms indicating that the competition has reduced
- Going ahead, Britannia's sales would be driven by Good Day which has been growing at 25-30% in the premium category and Tiger brand which has been growing at 18-20% in the value for money category.
- Expect operating margins to improve by about 44bps in FY10e and 22bps in FY11e, aided by reduction in operating cost through better product mix, decline in raw material cost and process improvement.
- Net sales expected to grow by 17%CAGR during FY08-10e led by 17%CAGR in biscuits. Profit after tax to grow by a CAGR of 20% during FY08-10e to INR2.6bn.

Risks

- Dependence on single product would be a concern
- Strong competition from private labels could emerge
- Smaller players could become aggressive in a declining input cost scenario

Valuation

At the CMP of INR1299, the stock trades at 13.9x FY09e and at 11.7x FY10e earnings. Our PE-based valuation provides a price target of INR1,549 per share. This provides a 19% upside from the current levels.

Key financials

	FY07	FY08	FY09e	FY10e	FY11e
Revenue	21,993	25,848	31,341	35,281	40,337
EBITDA	1,288	2,317	2,688	3,184	3,726
EBITDA margin (%)	6	9	9	9	9
EBITDA growth (%)	(36)	80	16	18	17
PAT	1,125	1,846	2,225	2,643	3,187
PAT growth	(21)	64	21	19	21
EPS(INR)	47.1	77.3	93.1	110.6	133.4
EPS growth (%)	(21)	64	21	19	21
P/E	27.6	16.8	13.9	11.7	9.7
P/BV	50.5	41.1	34.5	29.0	24.3
EV/EBITDA	25.4	14.1	12.2	10.3	8.8
RoE (%)	18	24	25	25	25

Source: Antique

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Britannia's market share has stabilised in the last 2 years

Britannia's market share in biscuits has stabilised at 34% in value terms and 31-32% in volume terms in the last 2 years.

After 4 years of consistent drop in market share, Britannia has witnessed stabilisation in market share, specifically during the last 2 years at 34% in value terms and 31-32% in volume terms. This is in comparison to Parle's volume share of 36-37% and value share of 33%. Initially, Britannia lost its market share to regional and smaller players such as Priya-Gold and later to ITC. We understand that the company has lost about 3% market share to ITC, especially in the mid-segment. Therefore, with stabilisation in the market share of leading players, we believe that the competition from ITC and smaller and regional players has reduced during the last 2 years. ITC is focusing on improving its profitability and attaining profits in its packaged foods business, which has primarily been held back due to losses in biscuits. The company is working on its biscuits product mix, which has led to pruning and going slow on low-margin products. This, in turn, could lead to lower competition in the Glucose segment for Britannia. Overall, we could witness consolidation in ITC's biscuit portfolio, and hence, lower competition for Britannia in biscuits as a whole. Additionally, the competition from smaller and regional players have also reduced, with higher input cost inflation containing their scope for scaling up of operations in a growing economy.

Shift from unorganised to organised market has also aided Britannia

Shift from the unorganised to the organised market has led to a 13-15% growth in branded biscuits over the last 3 years.

Growth of the branded market in biscuits has improved with a consistent shift from unorganised to organised market. The organised biscuits market share has increased from 50-60% to 75%-80% in the last 3 years. This, we believe, has led to 13-15% growth in branded biscuits during the last 3 years. The shift and growth in favour of the organised market could be primarily attributed to the implementation of VAT (value-added tax) and the removal of excise duty on biscuits worth up to INR100 per kg. Additionally, the spiraling prices of key inputs such as wheat and palm oil have also aided growth in the organised biscuit market.

Biscuit Market

	FY2004	FY2007	% growth
Organised biscuit market	50%	75%	15
Unorganised biscuit market	50%	25%	(21)

Source: Industry

Premium and value-for-money segment to drive Britannia sales

Premium and mass categories are growing at a healthy rate of 20%.

Britannia sales would be primarily driven by premium and value-for-money segments in biscuits. These categories have been the focal point for the company's business. While the premium category forms 40-45% of Britannia's biscuit sales, the mass category forms 25-30% of Britannia's biscuit sales. Both premium and mass categories are growing at about 20% each. The mid-segment has witnessed a slower growth of around 10%, thus leading to an overall growth of 17-18% in biscuits for the company. In the premium category, the key growth driver would be Good-Day, while in the value-for-money category, Tiger would drive the growth for Britannia. Good-Day and Tiger have been growing at 25-30% and 18-20%, respectively.

Sales break up

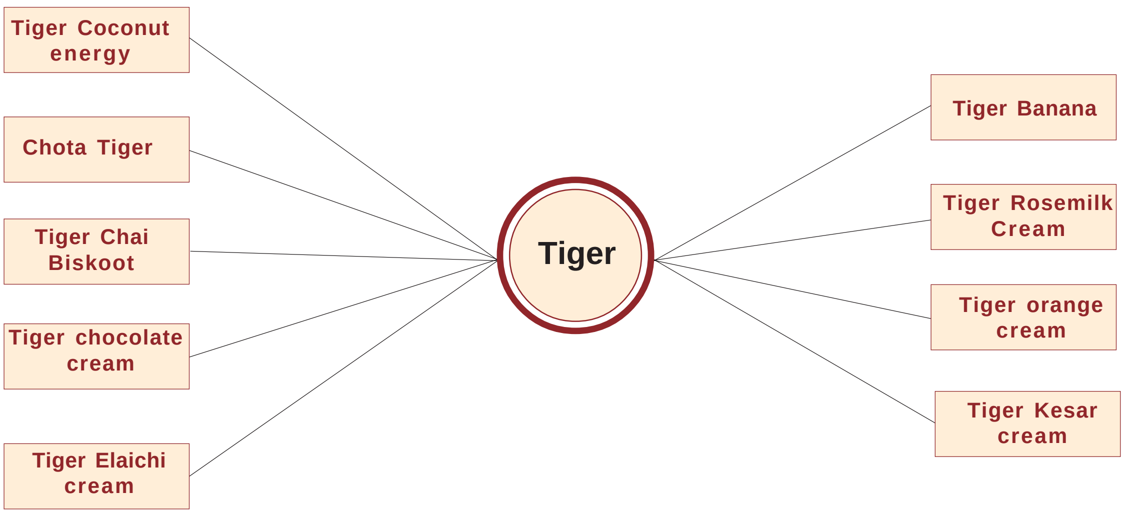
Brands	Segment	% sales contribution	Growth %
Good-Day, Nutrichoice, Treat, Bourbon	Premium	45	20
Marie, Milk Bikis, 50:50	Mid	25	10
Tiger (Below INR40 per kg)	Mass	30	20

Source: Company

New innovative product launches in glucose and strong branding in cookies to drive sales growth.

Strong branding in cookies and glucose, and innovation would be key growth drivers

Over the last 4 years, the company has strategically focused on the cookies and glucose category to contain the market share fall. It has strengthened its brand positioning in cookies through the launch of variants and higher ad-spend, while in the case of glucose, it has introduced small-priced packs to reach out to the maximum population, and to improve convenience of consumption. Additionally, the company has been the most innovative in the glucose category, and has added variants like coconut, creams and banana. Now with the stabilisation in market share, Britannia is now increasingly focusing on the health-based platform through its brand, Nutrichoice, in which the company has variants like Nutrichoice 5 grain, Nutrichoice sugar out and Nutrichoice digestive biscuit. We believe that the company would be able to leverage the health platform effectively, supplemented by its innovative ability to create a strong positioning, which in turn would be relatively insulated from the vagaries of volatility in demand.



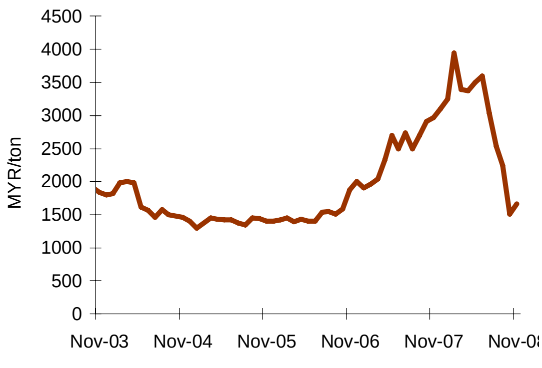
Source: Company,Antique

Profitability expected to improve to the tune of 6-8% on the back of price hikes and weight reductions.

Fall in raw material prices and improving product mix would aid profitability

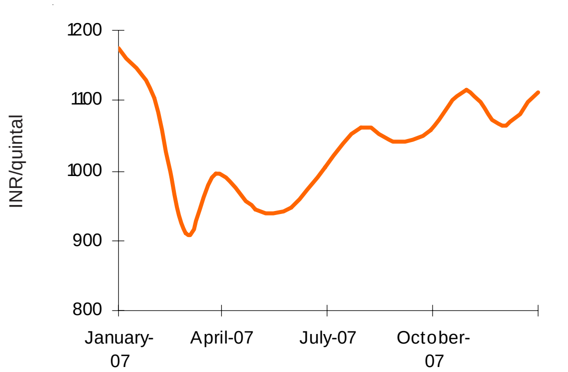
In the short to medium term, Britannia's profitability is expected to improve on the back of price hikes and weight reductions undertaken by the company to the tune of 6-8% and improvement in product mix. Additionally, the fall in prices of key inputs such as wheat and vegetable oil would also provide profitability for the company.

Palm Oil Prices



Source: Bloomberg ,Antique

Wheat Prices



Source: NCDEX,Antique

Gross Margin in key brands

Brands	Segment	Gross margin %
Good-Day, Nutrichoice, Treat, Bourbon	Premium	More than 30
Marie, Milk Bikis, 50:50	Mid	25-30
Tiger (Below INR40 per kg)	Mass	Below 15

Source: Company,Antique

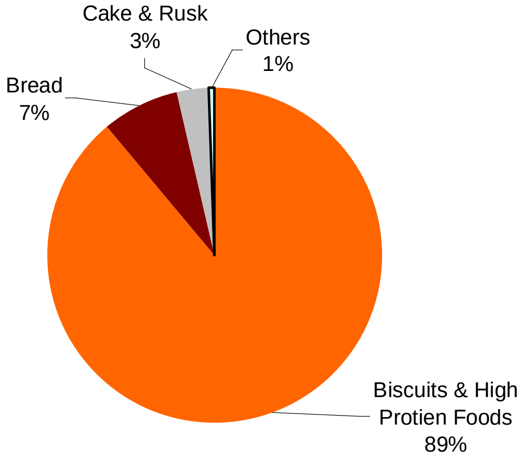
In the longer term, the company would be largely banking on the improvement in product mix for improving its profitability. In the current inflationary scenario, the strong growth in Good-Day, forming about 25% of the company's sales, has aided its margins, as it is estimated to form 30-35% of Britannia's profits.

Additionally, the company is also focusing on reducing its operating cost on a consistent basis through the process improvement, better technology and cost-efficient strategies of procurement and distribution. It targets cost-savings to the tune of 100 bps through these initiatives on an annual basis. We believe that the savings from the drop in raw material cost would be invested by the company in higher ad-spends to boost sales in a slowing demand scenario. Therefore, we expect operating margins to improve by about 33bps and 89bps in FY10e and FY11e, respectively. In FY09e, we expect the company to end the year with a drop of around 32 bps after a fall of 58 bps in 1HFY09.

Revenues expected to grow by a CAGR of 17%, PAT to grow by a CAGR of 20%

Sales during FY08-10e are expected to grow by 17% CAGR to INR35.2bn. This would be driven by 17% CAGR in biscuits to INR31.9bn. EBITDA is expected to grow at 17% CAGR to INR3.2bn during the period. EBITDA margins are expected to decline by 39bps to 8.6% during FY09e due to pressure on gross margins in the first half while during FY10e, EBITDA margins are expected to improve by 44bps to 9% due aided by better product mix and drop in raw material cost. Profit after tax is expected to grow by 20% CAGR to INR2.6bn during the period.

Sales Break up



Source: Company,Antique

Risks

Dependence on single product would be a concern

Being a single-product company (biscuits form 89% of total sales), Britannia faces the risk of dependence on a single product. The risk from its single-product dependence was evident from its performance during FY02-05, when the company faced immense pressure from the aggressive approach of ITC and the emergence of small and regional players.

Strong competition from private labels could emerge

With pressure on revenue growth due to the slowdown in demand across categories, retailers like Pantaloon could resort to launch of private labels in food products. Globally, private labels have attained the highest success in packaged foods. Therefore, the launch of private label brands in biscuits could pose an increased competitive threat to Britannia.

Smaller players could become aggressive in a declining input cost scenario

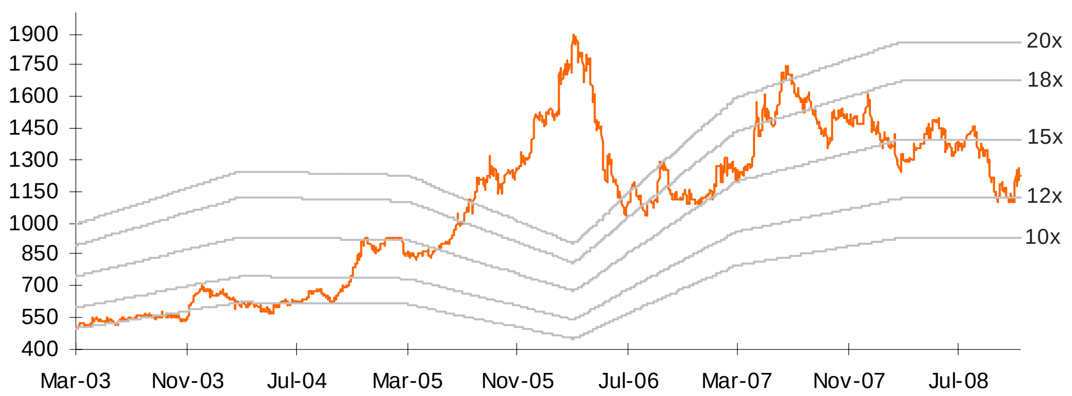
The fall in prices of key inputs could be a boon for smaller branded players in biscuits. Softening of raw material prices could aid the diversion of focus on innovation, and new launches to gain market share in a slowing demand scenario. This, in turn, could intensify the competition for Britannia.

Valuation

One-year forward PE valuation provides a price target of INR1,549

At the CMP of INR1,299, the stock is trading at 13.9x FY09e earnings and at 11.7x FY10e earnings. Historically, the stock has traded in a PE band of 9.2x-22.6x. In view of the expected out-performance of the biscuit industry in a scenario of slowdown and given Britannia's consistent value market share over the last 2 years, we believe that the stock would trade at a one-year forward PE of 14x. Thus, applying a PE of 14x to FY10e earnings, we arrive at a price target of INR1,549, providing a 19% appreciation from current levels.

PE band



Source: Bloomberg , Antique

Financials (INR m)

Profit & Loss account

Year ended 31st March	2006	2007	2008E	2009E	2010E
Revenues	21,993	25,848	31,341	35,281	40,337
Expenses	20,705	23,531	28,652	32,097	36,612
EBITDA	1,288	2,317	2,688	3,184	3,726
Depreciation & amortisation	253	291	345	420	450
EBIT	1,035	2,027	2,343	2,764	3,276
Interest expense	89	97	140	145	150
Other income	291	316	402	529	665
Profit before tax	1,238	2,245	2,605	3,147	3,790
Taxes incl deferred taxation	112	399	380	504	604
Profit after tax	1,077	1,910	2,225	2,643	3,187
Adjusted profit after tax	1,125	1,846	2,225	2,643	3,187
Recurring EPS (INR)	47.1	77.3	93.1	110.6	133.4

Balance Sheet

Year ended 31st March	2007	2008	2009E	2010E	2011E
Share Capital	239	239	239	239	239
Reserves & Surplus	5,909	7,319	8,754	10,459	12,515
Networth	6,148	7,558	8,993	10,698	12,753
Debt	48	1,061	1,061	861	661
Capital Employed	6,196	8,619	10,054	11,559	13,414
Gross Fixed Assets	3,921	4,532	4,832	5,132	5,432
Accumulated Depreciation	**(1,937)**	**(2,122)**	**(2,467)**	**(2,887)**	**(3,337)**
Net Assets	1,984	2,410	2,365	2,245	2,095
Capital work in progress	**160**	**97**	**111**	**112**	**112**
Investments	**3,200**	**3,808**	**4,008**	**4,208**	**4,408**
Current Assets, Loans & Advances					
Inventory	2,149	3,015	3,304	2,937	3,358
Debtors	286	463	565	489	895
Cash & Bank balance	486	438	2,247	4,540	6,664
Loans & advances and others	892	1,608	1,276	1,341	993
Current Liabilities & Provisions					
Creditors	2,367	2,470	2,766	2,969	3,453
Other liabilities & provisions	863	1,007	1,099	1,356	1,631
Net Current Assets	583	2,048	3,527	4,982	6,826
Deferred tax assets/(liabilities)	194	250	135	135	135
Misc.Expenses	74	6	(92)	(123)	(161)
Application of Funds	6,196	8,619	10,054	11,559	13,414

Per share data

Year ended 31st March	2007	2008	2009E	2010E	2011E
No. of shares (m)	238.9	238.9	238.9	238.9	238.9
BVPS (INR)	25.7	31.6	37.6	44.8	53.4
CEPS (INR)	3.7	6.5	7.9	9.3	11.5
DPS (INR)	15.0	28.4	33.1	39.3	47.4

Margins

Year ended 31st March	2007	2008	2009E	2010E	2011E
EBITDA	6%	9%	9%	9%	9%
EBIT	5%	8%	7%	8%	8%
PAT	5%	7%	7%	7%	8%

Source: Antique

Key Assumptions

Year ended 31st March					
Biscuits sales (INRm)	20,911	23,299	28,402	31,867	36,405
Raw material as % of net sales	64%	60%	60%	60%	59%
Advertisement as % of net sales	6%	7%	7%	8%	8%
Staff cost as % of net sales	3%	4%	3%	3%	3%
Other expenditure as % of net sales	21%	20%	21%	20%	21%

Cash Flow Statement

Year ended 31st March	2007	2008	2009E	2010E	2011E
EBIT	1,035	2,027	2,343	2,764	3,276
Depreciation & amortisation	253	291	345	420	450
Interest expense	(89)	(97)	(140)	(145)	(150)
(Inc)/Dec in working capital	(110)	(1,513)	330	838	281
Tax paid	(112)	(399)	(380)	(504)	(604)
Cash flow from operating activities	977	308	2,498	3,372	3,253
Capital expenditure	(817)	(547)	(314)	(301)	(300)
Inc/(Dec) in investments	(398)	608	200	200	200
Income from investments	291	316	402	529	665
Cash flow from investing activities	(924)	376	288	428	565
Inc/(Dec) in share capital	-	-	-	-	-
Inc/(Dec) in debt	-	-	-	-	-
Dividends paid	(419)	(774)	(901)	(1,071)	(1,291)
Others	499	41	(76)	(436)	(403)
Cash flow from financing activities	80	(733)	(977)	(1,507)	(1,693)
Net cash flow	133	(49)	1,809	2,293	2,124
Opening balance	353	486	438	2247	4540
Closing balance	486	438	2,247	4,540	6,664

Growth Indicators

Year ended 31st March	2007	2008	2009E	2010E	2011E
Revenue	28%	18%	21%	13%	14%
EBITDA	-36%	80%	16%	18%	17%
PAT	-21%	64%	21%	19%	21%
EPS	-21%	64%	21%	19%	21%

Valuation (x)

Year ended 31st March	2007	2008	2009E	2010E	2011E
PE	27.6	16.8	13.9	11.7	9.7
P/BV	50.5	41.1	34.5	29.0	24.3
EV/EBITDA	25.4	14.1	12.2	10.3	8.8
EV/Sales	1.5	1.3	1.0	0.9	0.8
Dividend Yield (%)	1.2%	2.2%	2.5%	3.0%	3.6%

Financial Ratios

Year ended 31st March	2007	2008	2009E	2010E	2011E
RoE	18%	24%	25%	25%	25%
RoCE	17%	24%	23%	24%	24%
Debt/Equity (x)	0.0	0.1	0.1	0.1	0.1
EBIT/Interest (x)	(11.6)	(20.8)	(16.7)	(19.1)	(21.8)

Colgate Palmolive India Ltd

Palmolive ka jawab nahi

HOLD | **CMP: INR 402** | **Target Price: INR 452**

ANTIQUE

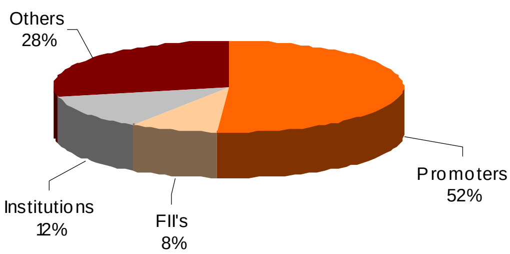
December 19, 2008 | Strictly confidential

Market Data		
Sector	:	FMCG
Market Cap (INRm)	:	55
Market Cap (USDm)	:	1.16
O/S shares (m)	:	136
Free Float (m)	:	65
52-wk HI/LO (INR)	:	525/340
Avg Daily Vol	:	10,000
Face Value (INR)	:	1
Bloomberg	:	CLGT IN
Reuters	:	COLG.BO

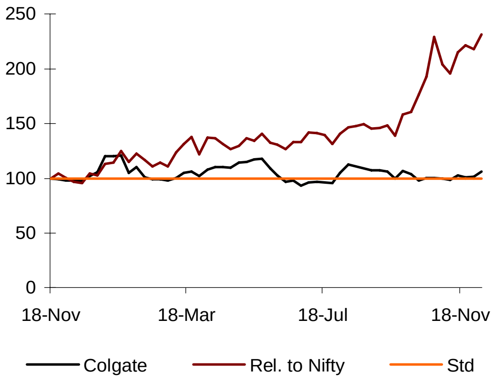
Price Performance

	1m	3m	6m	12m
Absolute	3	6	4	3
Relative	(10)	47	56	95

Shareholding Pattern



Price Performance Vs NIFTY



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Investment Highlights

- Large and comprehensive product portfolio along with strong branding will be the key growth drivers for Colgate and help maintain its dominance in the toothpaste category in the future.
- Colgate is expected to witness consistent gain in market share in the economy segment through its Cibaca brand, which would drive sales for the company and aid market share gains in a scenario of down-trading.
- Colgate's profitability would improve due to excise and income tax savings which will result due to higher insourcing from the backward area Baddi unit.
- Net sales to grow at 13%CAGR to INR18.7bn during FY08-10e and PAT to grow at 15%CAGR during FY08-10e to INR3.08bn.

Risks

- High dependence on single product remains a concern
- Higher-than-expected advertisement expenditure may impact earnings
- Competition from private labels could emerge in medium to longer term
- Emerging economy player, Dabur could pose competition

Valuation

At the CMP of INR402, the stock trades at 20.4x FY09e and at 17.8x FY10e earnings.Though we believe that CPIL would be a out-performer in the oral care category, we feel that the current valuations to an extent factor in these expectations and we don't find any case for further re-rating in the stock. Hence we recommend a HOLD at the current levels with a target price of INR452, implying a one year forward PE of 19.9x.

Key financials

	FY07	FY08	FY09e	FY10e	FY11e
Revenue	12,951	14,734	16,797	18,772	21,162
EBITDA	2,020	2,371	2,685	3,052	3,552
EBITDA margin (%)	16	16	16	16	17
EBITDA growth (%)	3	17	13	14	16
PAT	1,854	2,327	2,688	3,082	3,597
PAT growth (%)	19	26	16	15	17
EPS(INR)	13.6	17.1	19.8	22.7	26.5
EPS growth (%)	19	26	16	15	17
P/E	29.5	23.5	20.4	17.8	15.2
P/BV	19.5	33.7	27.4	22.5	18.7
EV/EBITDA	26.3	22.4	19.8	17.4	14.9
RoE (%)	66	143	135	127	123

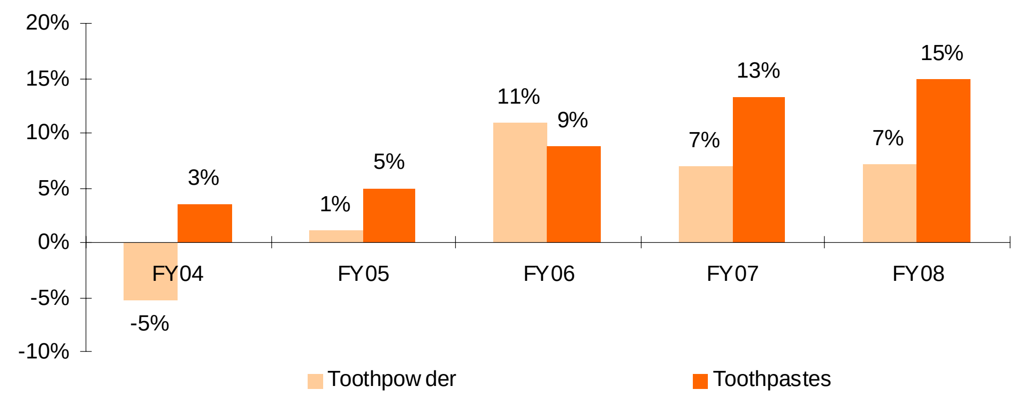
Source: Antique

Penetration levels of toothpaste and toothpowder have consistently improved over the past 5 years, indicating a growing awareness for the overall oral care segment.

Low per capita consumption and penetration levels posing high potential for growth

The scope for incremental growth in the Indian toothpastes industry remains high, due to low penetration levels and per capita consumption. While penetration levels for toothpaste stands at about 53% in India, its per capita consumption stands at USD0.4, lower as compared with its Asian counterparts. Over the last 5 years, toothpastes have grown at a healthy CAGR of around 9%, showing an out-performance, besides indicating a shift from toothpowders, which have grown at a CAGR of 3.3% during the same period. More importantly, though toothpaste has grown at a higher rate to toothpowders, penetration levels of both toothpaste and toothpowder has consistently improved during the past 5 years, thus indicating a growing awareness for the overall oral care segment, which augurs well for toothpastes in the coming years. With a higher percentage of rural India shifting from traditional to relatively modern methods of oral care, we feel this rising awareness for oral care will lead to higher conversion to toothpaste consumers in semi-urban and rural India. Further, the percentage of Indian population brushing twice a day even in urban markets are at a low of 7% as against 61% and 86% in China and Malaysia, respectively. So even though the per capita consumption in China at USD0.5 looks close to India's per capita consumption of USD0.4, the scope for growth in India's urban markets are high due to the low percentage of population brushing twice per day.

Toothpaste&Toothpowder growth rate



Source: Industry

Per capita consumption

Country	(US $)
India	0.4
China	0.5
Indonesia	1
Thailand	2
Malaysia	2.9
South Africa	3.6

Source: Company

Penetration levels

Category	CY01	CY02	CY03	CY04	CY05	CY06	CY07
Toothpaste	44	44	45	46	49	53	53
Toothpowder	36	36	35	35	35	35	35
Dentifrice	70	71	72	73	74	78	78

Source: Company

Colgate's comprehensive toothpaste portfolio would aid out-performance for the company

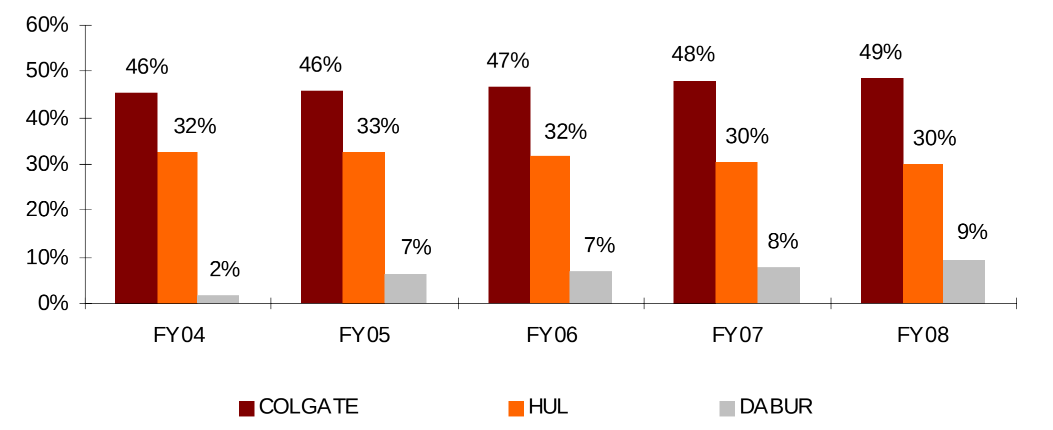
Colgate's wide range of offerings in toothpaste, both at the premium-end and the value-for-money segment, will be key growth drivers for the company.

Colgate's comprehensive presence and strong branding in toothpaste will be its key strength in a market, which is witnessing growth across categories. Colgate has a wide range of offerings in toothpaste both at the premium-end and the value-for-money segment. While it has a strong broadbased presence in urban markets, it also has a separate value-for-money brand in Cibaca, targeting rural markets. In the premium segment, particularly in urban markets, Colgate is benefiting through its introductions such as Colgate Active Salt, Colgate Maxfresh Gel and Colgate Advanced Whitening. It also has a range of offerings in the popular category such as Colgate Gel, CDC, Colgate Fresh Energy Gel and Colgate Active Salt, while in the sub-popular or value-for-money segment, it is present through its Cibaca brand. No other competitor in the Indian oral care space has such a large and extensive product offering. HUL, which is its strongest competitor, is mainly present in premium and popular segments, but has no offering in the value-for-money category. Also, HUL is mainly focused on maintaining its market share in toothpaste, and is not really expected to intensify its efforts even in urban markets to improve its oral care sales. Thus, we believe that such a large and extensive product portfolio will be one of the key growth drivers for Colgate and maintain its dominance in the toothpaste category in the future.

Segments	Colgate brands	Competing brands
Premium	Colgate 12	Pepsodent G
	Colgate Maxfresh Gel	Close up Red/Lemon mint
	Colgate Advanced Whitening	Close up & Promise
Popular	Colgate Gel	Pepsodent 2 in 1
	CDC	
	Colgate Fresh energy gel	
	Colgate Active Salt	Pepsodent whitening, Meswak, Dabur Red Toothpaste
Sub-popular	Cibaca	Babool, Ajanta

Source: Industry ,Antique

Toothpaste Market Share



Source: Industry

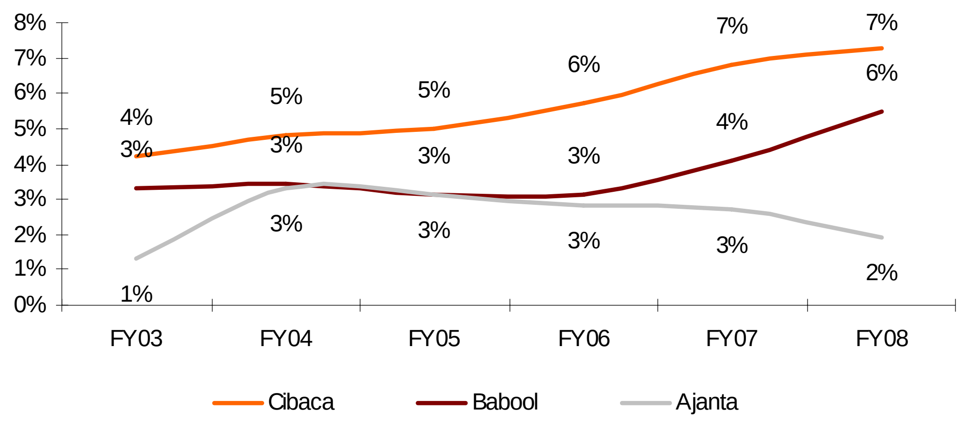
Market share could improve in a down-trading scenario due to gains from HUL

In a scenario of down-trading, there may be a slowdown in demand for premium products and higher demand for value-for-money products. Colgate will be at a significant competitive advantage, as it has one of the strongest brands in the lower priced toothpaste segment. Colgate has improved

Colgate has one of the strongest brands, with no major competitors in the lower-priced toothpaste segment.

its presence in the value-for- money segment through an increase in market share of Cibaca from 5% in FY05 to 7.3% in FY08. The second-biggest player in toothpastes, HUL does not provide any competition to Colgate in the value-for-money segment, due to the lack of value-for-money products. Thus, the main competition for Cibaca in this segment comes from Dabur's Babool, and smaller players such as Ajanta, Anchor and Amar remedies. Therefore, we believe that with no major competitors in the fray, Colgate is expected to witness continued market share gain in this segment, which in turn would drive sales volumes for the company and aid market share gains in a scenario of down-trading.

Toothpaste market share(economy)



Source: Industry

Profitability could improve with further in-sourcing from Baddi unit

Higher in-sourcing from the Baddi unit will lead to cost-savings for Colgate in the form of excise duty and income tax savings over the next 2 years.

In April 2005, Colgate commenced operations in its newly set up toothpaste-manufacturing facility in the backward region of Baddi (Himachal Pradesh), with an installed capacity of 40,000 tonnes per annum. Over the next 2 years, we estimate the plant to clock utilisation levels of 80.5% and 81.3% in FY09e and FY10e, respectively. Higher in-sourcing from the Baddi unit will lead to cost-saving for Colgate in the form of excise duty and income tax. Net incremental excise savings in FY09e is expected to be INR139m, and in FY10e it is likely to be at INR101m. The effective tax rate will decline from 21% in FY08 to 17% in FY09e and 15% in FY10e. This will result in income tax saving of INR125m and INR88m in FY09e and FY10e, respectively.

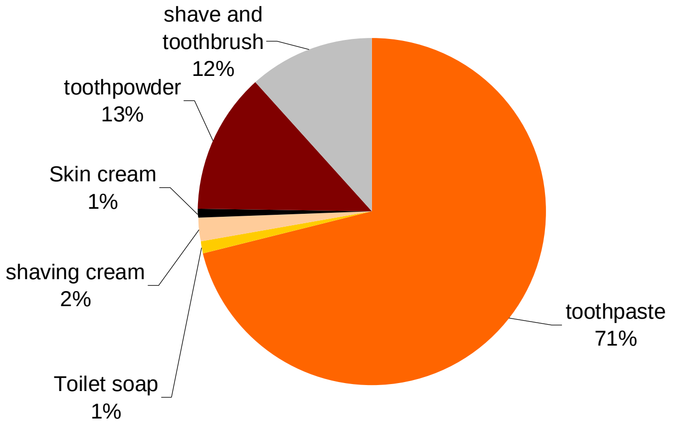
	FY2008	FY2009E	FY2010E	FY2011E
Total toothpaste sales	11,098	12,692	14,229	16,113
Growth %	15	14	12	13
Total toothpaste sales (Volumes)	56,130	60,621	66,076	72,023
Growth %	9	8	9	9
In-sourcing from backward area unit (Volumes)	38,600	45,000	49,500	54,120
% of total toothpaste sales (Volumes)	69	74	75	75
In-sourcing from backward area unit (Value)	8,344	10,214	11,572	13,159
% in-sourcing from backward area unit	75	80	81	82
Total in-sourcing of toothpaste (Value)	8,344	10,214	11,572	13,159
% in-sourcing	75	80	81	82
Total in-sourcing of toothpaste (volumes)	38,600	45,000	49,500	54,120
% of total toothpaste sales (Volumes)	69	74	75	75
Excise duty payment	798	767	756	733
% of gross sales	5	4	4	3
Incremental excise savings from Baddi	210	139	101	118
% of gross sales	1	1	1	1
Income tax savings	113	125	88	103
effective tax rate %	21	17	15	12

Source: Company,Antique

Net sales to grow by 13% and PAT to grow at a CAGR of 15% during FY08-10e

We expect Colgate's net sales to grow by 14% YoY and 12% YoY to INR16.8bn in FY09e and INR18.7bn in FY10e, respectively, backed primarily by consistent volume growth in toothpastes. We believe that the company stands to benefit from the consistent volume growth witnessed in oral care categories. EBIDTA is expected to grow at 13%yoy to INR2.7bn during FY09e and 14%yoy to INR3.05bn during FY10e. Its net profit is expected to grow by 16% YoY to INR2.68bn in FY09e, led by excise and income tax savings from higher in-sourcing. In FY10e, the net profit is expected to grow by 14.7% YoY to INR3.08bn.

Sales break up(FY08)



Source: Company

High dividend payout provides support to valuations

At the CMP of 402, the stock is available at a dividend yield of 3.7% FY09e and 4.2% in FY10e. This provides one of the best dividend yields in the FMCG universe. Our dividend yield assumption is based on the dividend payout ratio of 75%, and dividend per share of INR14.8 and INR17 in FY09e and FY10e, respectively.

Risks

High dependence on single product remains a concern

Colgate remains highly dependant on a single product, toothpastes. Therefore, any higher-than-expected slowdown in the category as a whole during the economic slowdown would be a cause of concern for the company. However, with its comprehensive portfolio in place, the company is relatively better placed over its peers in the oral care segment.

Higher-than-expected advertisement expenditure may impact earnings

Colgate has ramped up its advertising spend in FY08. The company continued to increase its ad spend even during the first quarter of FY09. An increase in competitive activity may require Colgate to further increase its advertising and promotional spend to face competition. This, in turn, may lead to higher-than-expected increase in advertisement expenditure, which may impact earnings negatively.

Competition from private labels could emerge in medium to longer term

According to reports, retail chains in India are planning to launch multiple private label brands in the oral care segment. These retail chains plan to offer quality oral care products at lower prices than existing brands in the market. Thus, the entry of private label brands could be a new source of competition for Colgate in the days to come. However, across the world, it has been proved that private labels have not been able to make any meaningful impact in the personal care space.

Emerging economy player, Dabur could pose competition

With improvement in market share of Dabur's Red Toothpaste and the acquisition of Balsara over a period of time, Dabur is beginning to emerge as a competitor for Colgate, particularly in the economy segment. In the economy segment, Dabur's Babool has increased its market share at a higher rate over Cibaca.

Valuation

One-year forward PE valuations implies a price target of INR452

At current valuations, the stock is trading at a PE of 20.4x FY09e earnings and at 17.8xFY10e earnings. Historically, the stock has traded in a PE band of 16x-24x. With the re-rating of the oral care sector backed by growth in overall demand and consistent improvement in market share over the past 2 years, the stock has been trading in its higher band. Though we believe that Colgate Palmolive India Ltd would be a out-performer in the oral care category, we feel that a portion of the expectations have been factored in the current valuations and we don't find any case for further re-rating in the stock. Hence based on the 5 year one year forward PE valuations of 19.9x we arrive at our target price of INR452, providing a 12% upside from the current levels. We therefore recommend a HOLD on the stock at the current levels.

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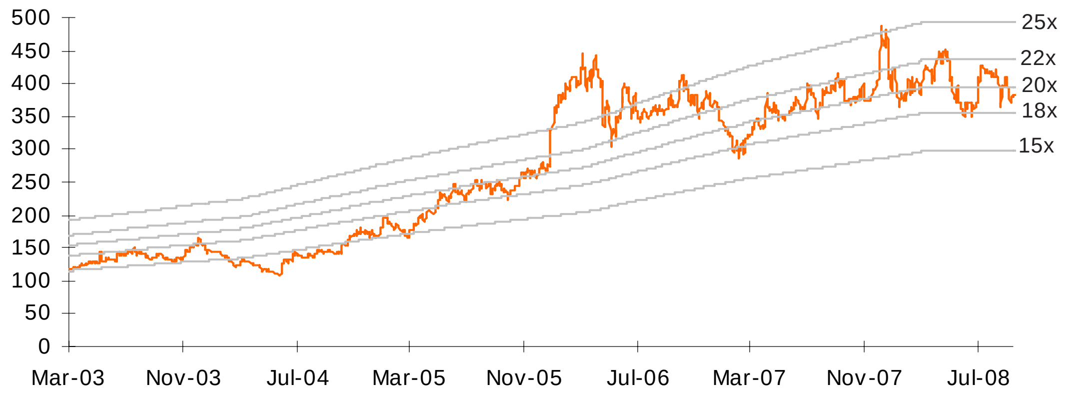
PE band



Source: Bloomberg , Antique

Financials (INR m)

Profit & Loss account

Year ended 31st March	2007	2008	2009E	2010E	2011E
Revenues	12,951	14,734	16,797	18,772	21,162
Expenses	10,931	12,363	14,111	15,721	17,610
EBITDA	2,020	2,371	2,685	3,052	3,552
Depreciation & amortisation	153	198	225	245	265
EBIT	1,868	2,172	2,460	2,807	3,287
Interest expense	10	14	15	17	19
Other income	610	773	800	825	830
Profit before tax	2,468	2,931	3,245	3,615	4,098
Taxes incl deferred taxation	614	603	557	532	501
Profit after tax	1,602	2,317	2,688	3,082	3,597
Adjusted profit after tax	1,854	2,327	2,688	3,082	3,597
Recurring EPS (INR)	13.6	17.1	19.8	22.7	26.5

Balance Sheet

Year ended 31st March	2007	2008	2009E	2010E	2011E
Share Capital	1,360	136	136	136	136
Reserves & Surplus	1,445	1,486	1,862	2,292	2,795
Networth	2,805	1,622	1,998	2,428	2,931
Debt	43	47	47	47	47
Capital Employed	2,848	1,669	2,045	2,475	2,978
Gross Fixed Assets	4,115	4,496	4,696	4,896	5,096
Accumulated Depreciation	(2,438)	(2,582)	(2,807)	(3,063)	(3,334)
Net Assets	1,677	1,914	1,889	1,833	1,762
Capital work in progress	**243**	**76**	**243**	**243**	**243**
Investments	**1,333**	**726**	**726**	**726**	**726**
Current Assets, Loans & Advances					
Inventory	803	756	979	1,095	1,178
Debtors	93	92	96	107	120
Cash & Bank balance	1,117	1,443	2,136	2,915	4,219
Loans & advances and others	1,531	1,726	1,023	1,023	1,023
Current Liabilities & Provisions					
Creditors	3,157	3,469	3,631	3,834	4,359
Other liabilities & provisions	1,049	1,873	1,674	1,890	2,192
Net Current Assets	(662)	(1,325)	(1,070)	(583)	(10)
Deferred tax assets/(liabilities)	257	278	257	257	257
Misc.Expenses	-	-	-	-	-
Application of Funds	2,848	1,669	2,045	2,475	2,978

Per share data

Year ended 31st March	2007	2008	2009E	2010E	2011E
No. of shares (m)	136.0	136.0	136.0	136.0	136.0
BVPS (INR)	20.6	11.9	14.7	17.9	21.6
CEPS (INR)	12.5	15.7	18.1	20.9	24.5
DPS (INR)	9.5	12.8	14.8	17.0	19.8

Margins

Year ended 31st March	2007	2008	2009E	2010E	2011E
EBITDA	16%	16%	16%	16%	17%
EBIT	14%	15%	15%	15%	16%
PAT	14%	16%	16%	16%	17%

Source: Antique

Key Assumptions

Year ended 31st March	2007	2008	2009E	2010E	2011E
Toothpaste sales (INRm)	9,689	11,098	12,692	14,229	16,113
Raw material cost as % of net sales	44.5%	42.9%	43.3%	43.1%	42.8%
Advertisement expenditure as % of net sales	16.0%	17.4%	17.5%	17.5%	17.5%
Other expenditure as % of net sales	23.9%	23.1%	23.2%	23.1%	22.9%

Cash Flow Statement

Year ended 31st March	2007	2008	2009E	2010E	2011E
EBIT	1,868	2,172	2,460	2,807	3,287
Depreciation & amortisation	153	198	225	245	265
Interest expense	(10)	(14)	(15)	(17)	(19)
(Inc)/Dec in working capital	400	976	451	292	731
Tax paid	(614)	(603)	(557)	(532)	(501)
Cash flow from operating activities	1,796	2,729	2,564	2,795	3,763
Capital expenditure	(232)	(214)	(368)	(200)	(200)
Inc/(Dec) in investments	(150)	(607)	-	-	-
Income from investments	610	773	800	825	830
Cash flow from investing activities	228	(48)	432	625	630
Inc/(Dec) in share capital	-	(1,224)	-	-	-
Inc/(Dec) in debt	(1)	4	-	-	-
Dividends paid	(1,481)	(2,201)	(2,312)	(2,652)	(3,095)
Others	(305)	1,066	9	11	5
Cash flow from financing activities	(1,787)	(2,355)	(2,303)	(2,641)	(3,089)
Net cash flow	238	325	693	779	1,304
Opening balance	880	1117	1443	2136	2915
Closing balance	1,117	1,443	2,136	2,915	4,219

Growth Indicators

Year ended 31st March	2007	2008	2009E	2010E	2011E
Revenue	15%	14%	14%	12%	13%
EBITDA	3%	17%	13%	14%	16%
PAT	19%	26%	16%	15%	17%
EPS	19%	26%	16%	15%	17%

Valuation (x)

Year ended 31st March	2007	2008	2009E	2010E	2011E
PE	29.5	23.5	20.4	17.8	15.2
P/BV	19.5	33.7	27.4	22.5	18.7
EV/EBITDA	26.3	22.4	19.8	17.4	14.9
EV/Sales	4.1	3.6	3.2	2.8	2.5
Dividend Yield (%)	2.4%	3.2%	3.7%	4.2%	4.9%

Financial Ratios

Year ended 30th June	2007	2008	2009E	2010E	2011E
RoE	66%	143%	135%	127%	123%
RoCE	66%	130%	120%	113%	110%
Debt/Equity (x)	0.0	0.0	0.0	0.0	0.0
EBIT/Interest (x)	(190.5)	(151.4)	(164.0)	(165.1)	(173.0)

Dabur India Ltd

In the Restructuring Mode

HOLD **CMP: INR 84** **Target Price: INR 90**

ANTIQUE

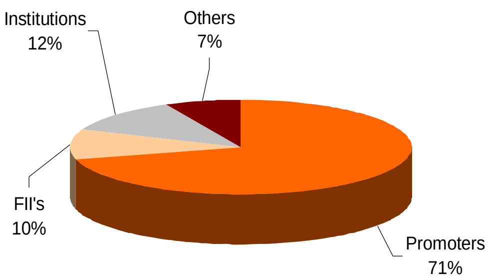
December 19, 2008 Strictly confidential

Market Data		
Sector	:	FMCG
Market Cap (INRm)	:	73
Market Cap (USDm)	:	1.5
O/S shares (m)	:	865
Free Float (m)	:	343
52-wk HI/LO (INR)	:	127/60
AvgDaily Vol	:	228,000
Face Value (INR)	:	1
Bloomberg	:	DABUR IN
Reuters	:	DABU.BO

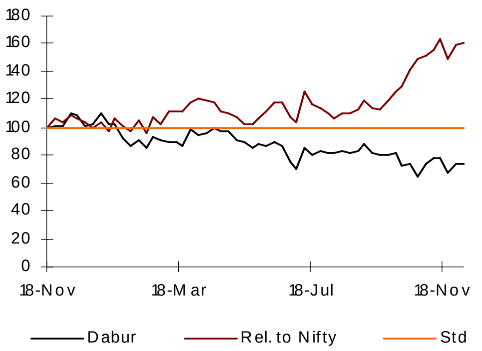
Price Performance

	1m	3m	6m	12m
Absolute	6	(6)	(14)	(25)
Relative	(8)	31	29	41

Shareholding Pattern



Price Performance Vs NIFTY



Investment Highlights

- International business division to be the key growth driver, recording a CAGR of 32% during FY08-10e
- Accelerated growth in shampoos and steady growth in hair oils would lead to 15.7%CAGR in hair care during FY08-10e
- Strong demand scenario and consistent growth in market share in economy segment will drive sales in oral care category
- Foods division expected to grow at 13.5%CAGR during FY08-10e to INR 3,102m.
- Acquisition of Fem care gives Dabur a strong dominating presence in under-penetrated skin care market and would be a key growth driver in future
- Sales are expected to grow at a CAGR of 16.8% CAGR to INR32.2bn during FY08-10e. Profit after tax is expected to grow by a CAGR of 13.4% to INR4.3bn during this period.

Risks

- Chyawanprash could be impacted by slowdown as witnessed during FY03-05
- Higher-than-expected time to ramp up distribution of Fem Care could impact earnings
- Low-cost competition in a slowdown could be cause for concern

Valuation

At the CMP of INR84, the stock trades at 19.2x FY09e and at 16.8x FY10e earnings.Our PE based valuation provides a target price of INR90 per share, fetching an appreciation of 7% from the current levels.

Key financials

	FY07	FY08	FY09e	FY10e	FY11e
Revenue	20,431	23,611	27,660	32,235	37,173
EBITDA	3,497	4,093	4,692	5,531	6,438
EBITDA margin (%)	17	17	17	17	17
EBITDA growth (%)	20	17	15	18	16
PAT	2,822	3,338	3,763	4,299	5,241
PAT growth (%)	25	18	13	15	22
EPS(INR)	3.3	3.9	4.4	5.0	6.1
EPS growth (%)	25	18	13	15	22
P/E	25.6	21.7	19.2	16.8	13.7
P/BV	14.9	11.6	8.9	7.2	5.8
EV/EBITDA	20.8	17.8	15.5	13.1	11.3
RoE (%)	58	54	46	43	42

Source: Antique

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International business division to be the key driver of growth

International business division's contribution to total sales has increased from 11.9% in FY06 to 15.7% in FY08.

International business division has grown at a CAGR of 29% during FY06-08. This division accounted for 16% of the company's sales in FY08. Main growth drivers have been Egypt and Middle Eastern countries, where there has been consistent growth in sales over the years. Due to the high growth rate of the international business division, its contribution to total sales has increased from 11.9% in FY06 to 15.7% in FY08. Going forward, we believe that the international business division will continue to expand and grow at a rapid pace, driven primarily by the hair care category. The strong growth in this business is reflected in the fact that Dabur is expanding its manufacturing capacities abroad with the setting up of a new unit at Ras Al Khaimah, UAE, and is also increasing its manufacturing capacity in Egypt. During FY08-10e, we expect this division to grow by a CAGR of 32%, led primarily by the incremental sales growth in hair care categories.

Hair care to grow at a CAGR of 15.7% during FY08-10e, led by higher growth in shampoos and steady growth in hair oils

We expect shampoos to grow at a CAGR of 24% and hair oils at a CAGR of 15% during FY08-11e

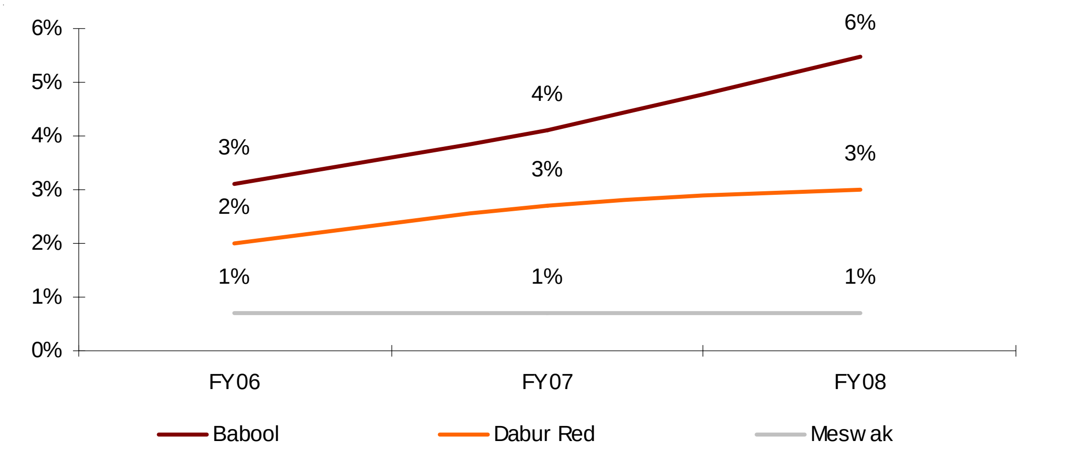
The hair care category is the largest business category for Dabur, accounting for 22% of total sales in FY08. The company's hair care business comprises of hair oils and shampoos, of which the former contributes about 80% of total hair care sales, while shampoos account for 20% of hair care sales. The hair care category has grown at at a CAGR of 9% during FY06-08 from INR4,384m in FY06 to INR5,223m in FY08, led by strong growth in shampoos. While the hair oil segment has grown by 13% over the last 3 years, shampoos have grown by 22% during the same period. During H1FY09 shampoos grew by 31%, while hair oils grew by 16%, leading to the overall hair care category growth of 19%. The growth in shampoos segment of Dabur has outpaced the overall shampoo industry growth. While the shampoos segment for Dabur has grown at at CAGR of 22% during FY06-08, outperforming the shampoo industry growth of 13.3% (CAGR) during the same period. This has resulted in increase in market share for Dabur from 4.8% in FY06 to 5.1% in FY08. We believe, going forward, shampoos will continue to drive growth of the hair care category, while hair oils would witness steady growth backed by its key brand, Dabur Amla. During FY08-11e, we expect that the hair care category would grow by at CAGR of 16%, led by a CAGR of 24% in shampoos and a CAGR of 15% in hair oils, making this category one of the main drivers of sales for Dabur. During FY08-10e, this business category is expected to grow at a CAGR of 15.7% to INR6,987m.

Oral care growth to be led by value-for-money product offerings

We expect revenues for the business category to grow at a CAGR of 5% during FY08-10e to INR3,969m.

The oral care category (15% of sales) has witnessed consistent growth over the last 3 years, led by Babool and Dabur Red toothpaste, which are economy and popular segment brands. The oral category has grown at a CAGR of 11.2% during FY06-08. Consistent outperformance by Babool and Dabur Red has led to an increase in market share for these two brands. While Babool's market share has increased from 3.1% in FY06 to 5.5% in FY08, Dabur Red's market share has increased from 2.6% in FY06 to 3% in FY08. Meswak's market share has remained constant at 0.7% during this period. Going forward, we believe that Dabur will continue to outperform in the oral care category, led by Babool and Dabur Red. In a scenario of down-trading, there may be a slowdown in demand for premium products and higher demand for value-for-money products. This will be beneficial to Dabur, as it has a strong positioning in the value-for-money segment, and a higher demand scenario in this category will further consolidate its position in the market. We expect revenues for the business category to grow at a CAGR of 5% during FY08-10e to INR3969m. Again the lower growth during FY08-10e is also due to the substantial slowdown in growth that the business category is witnessing in FY09 at 4.4% YoY. We expect revenues for the business to revive and grow at a CAGR of 7% during the FY09e-11e, led by the revival in its value- for-money brand, Babool.

Dabur toothpaste market share



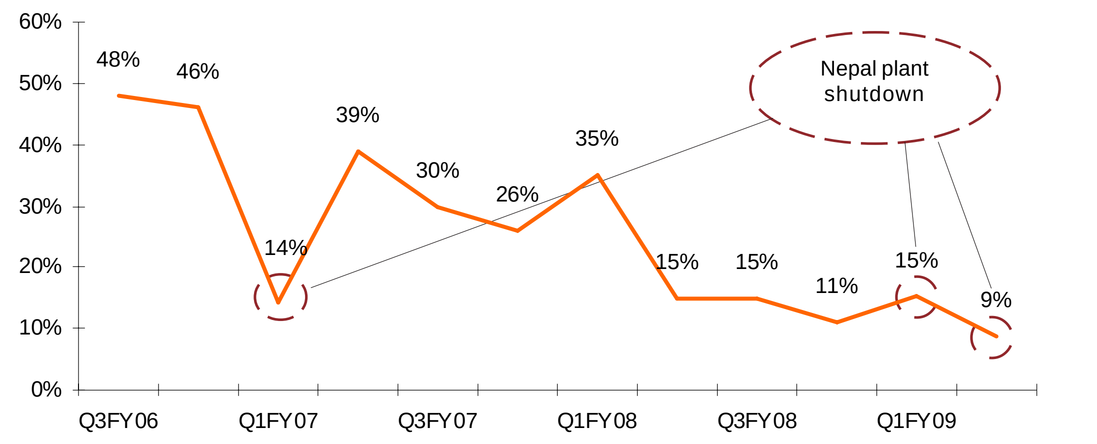
Source: Industry

Stabilisation of operations in Nepal could be a boon for food performance

The closure of Nepal plant led to a significant decline in foods division growth rate.

Dabur's food division has witnessed a slower growth of 12.7% (CAGR) during FY06-08 as against 48.7% CAGR during FY04-FY06. The slower growth in sales has been due to supply disruptions because of closure of its production unit in Nepal, which contributed about 80% of Dabur's total food production. The Nepal unit has been facing labour unrest, and hence, has been prone to shutdown in operations. This category has witnessed a slowdown in growth due to supply disruptions because of closure of its production unit in Nepal. InQ1FY07, the plant was closed, which resulted in 20 days of loss of shipment from Nepal. Due to this, the growth of foods division went down from 46% in previous quarter to 14% in Q1FY07. There were two more plant shutdowns during the first 2 quarters of FY09, which again led to lower growth in this category. To overcome this problem, Dabur has reduced its dependence on Nepal to 60% by building up food capacities in India.

Food Division growth rate



Source: Company

Foods to grow at a CAGR of 13.5% during FY08-10e to INR 3,102m.

However, Dabur would still want to continue operations in Nepal, due to cheaper and better quality of raw materials, particularly orange, which is the largest product in fruit juices. Therefore, stabilisation in operations in Nepal, which has been achieved over the last few months is desirable and will lead to higher growth rates in the foods category. Currently, we expect the business category to grow at a CAGR of 13.5% during FY08-10e to INR 3,102m. During FY08-11e, the business category is expected to grow at a CAGR of 15% to INR3,660m.

Health supplement to grow at a CAGR of 11%

Health supplements to grow at 13.4% in FY09e

The health supplement category has grown by a CAGR of 12% during FY06-08, with higher growth during FY08 of 16%. During FY09, too, the higher growth in health supplements has continued, and we estimate that Dabur would close the year with a growth of around 13.4% to INR3,961m. We expect health supplements to grow at a CAGR of 10% during FY08-10e.

Dabur is the market leader in Chyawanprash

Chyawanprash forms about 53% of Dabur's health supplement business. The other constituents of this business category are Dabur Honey and Dabur Glucose, which contribute around 29% and 15% of the business. Dabur is the market leader in Chyawanprash, with a 60% market share in this category. Hence it is in a strong position to outperform in the category in a slowdown.

Fem Care strengthening skin care access

Fem Care's pharma portfolio caters primarily to skin and hair care and it has 60% market share in fairness bleach.

The skin care category is highly under-penetrated in India, with about 22% penetration levels providing healthy growth opportunities for FMCG players. In view of this, Dabur has entered in to a definitive agreement to acquire a majority stake of 72.15% in Fem Care Pharma Ltd (FCPL), and will be further putting up an open offer for an additional 20% stake in the company. Fem Care Pharma is primarily engaged in four businesses: consumer products, pharma, contract manufacturing and specialty chemicals. The consumer products business is the company's mainstay, spread across fairness bleach, hair removing cream and liquid handwash. It has a strong 60% market share in its key consumer business, fairness bleach. In sync with its consumer products portfolio, Fem Care's pharma portfolio primarily caters to skin and hair care.

We believe that the acquisition would be earnings neutral for Dabur in FY10e and would start contributing to profits from FY11e.

The acquisition gives Dabur a dominating presence in a niche category like fairness bleach. Dabur could use its strong 2.5m retail distribution reach to extend and expand this niche category. Additionally, Dabur could also use the niche positioning of Fem to extend the presence of the consolidated entity in skin care through the launch of related products. We believe that the consolidation with Fem Care would lead to cost-savings in relation to sourcing, trade and distribution. Further, Fem Care's advertisement expenditure, which stood at about 19% in FY08, could be reduced due to better bargaining power of the consolidated entity. In FY09e, Fem Care is expected to record sales of INR1,100m with an EBITDA of INR180m and PAT of INR150m. The consolidation of Fem Care with Dabur would be effective for about 1 month and 15 days in FY09e. Further, during FY10e, we estimate that Fem Care would record sales of around INR1,298m and a PAT of INR202m. The company would be losing about INR250m on cash and cash equivalents invested in the Fem Care acquisition. Therefore, we believe that the acquisition would be earnings neutral in FY10e and would start contributing to profits from FY11e.

Retail operations to impact earnings

Retail operations expected to have operating losses of INR200m in FY09e and INR125m in FY10e

Dabur made a foray into Indian retail space under the brand name, 'newU', through its wholly-owned subsidiary, H&B Stores Ltd. Currently, the company operates six stores, with an average size of 1,500 sq ft. It plans to add one more store by the end of FY09e, and another 15 stores by the end of FY10e to take the total number of stores to 22, covering the retail space of around 22,000 sq ft by FY10e. In FY08, retail operations had sales of around INR77m and operating loss of INR75m. Going forward, we expect this division to achieve sales of INR800 per sq ft. At this rate, the sales would be INR86m in FY09e and INR230m in FY10e, while operating losses would be INR200m in FY09e and INR125m in FY10e. Therefore, this will contribute to Dabur's profits and put pressure on its overall margins.

Setting up plants in backward areas would lead to higher excise and income tax savings

Setting up plants in backward areas would ensure that they have fiscal benefits going up to 2018

Dabur has decided to set up some plants in backward areas over the next few years, keeping in mind excise tax benefits and income tax it can receive by setting up plants in these areas. This will result in a capex next fiscal in the region of INR1.2bn. Setting up plants in these areas would ensure that they have fiscal benefits going up to 2018. The company is planning to source around 95% of its production from tax-free zone. Therefore, its excise provisioning and income tax provisioning are expected to remain at low levels over the next 5 years.

Sales to grow by at a CAGR of 16.8%, while PAT at a CAGR of 13.4%

During FY08-10e, sales are expected to grow at a CAGR of 16.8% to INR32.2bn. This would be driven by a CAGR of 32.3% in the international business division, 13.5% growth in foods and 15.7% growth in hair care. EBITDA margins are expected to decline by 38 bp to 17% during FY09e, due to the higher raw material cost. However, it is expected to revive by 20 bps and 16 bps in FY10e and FY11e, respectively, due to a decline in raw material prices. Profit after tax is expected to grow by a CAGR of 13.4% to INR4.3bn.

Sales break-up

INRm	FY08	FY09e	FY10e	CAGR(FY08-FY10e)(%)
Health Supplements	3,493	3,961	4,244	10.2
Digestives and Candies	1,445	1,498	1,550	3.6
Hair Care	5,223	6,215	6,987	15.7
Oral Care	3,613	3,772	3,969	4.8
Baby Oils/ Skin care	1,041	1,099	1,143	4.8
Home care	1,075	1,176	1,270	8.7
CCD	15,890	17,722	19,163	9.8
CHD	1,547	1,903	2,188	18.9
Foods	2,408	2,697	3,102	13.5
IBD	3,756	5,263	6,578	32.3
Others	362	360	364	0.3
Fem care	-	138	1,298	
Gross sales	**23,963**	**28,082**	**32,693**	**16.8**

Source: Company,Antique

Risks

Chyawanprash could be impacted by slowdown as witnessed during FY03-05

The Chyawanprash category had witnessed a decline during the slowdown in FY03-05. This could be repeated during the coming year of economic slowdown. However, we believe that Dabur would be less impacted, due to its increasing market share in the category. Further, with health gaining importance with rising awareness, the impact of the slowdown, we estimate, could be lower over the earlier slowdown.

Higher-than-expected time to ramp up distribution of Fem Care could impact earnings

We believe that the first two initiatives would be to align trade margins of Fem Care with higher trade margins of Dabur and to ramp up distribution of Fem Care products using Dabur's retail reach. The second step would require consolidation of distribution between the two companies to an extent, which we believe, would take some time. Any delay or more-than-expected time taken for ramping up distribution would lead to delay in the ramp up of sales.

Low-cost competition in a slowdown could be a cause of concern

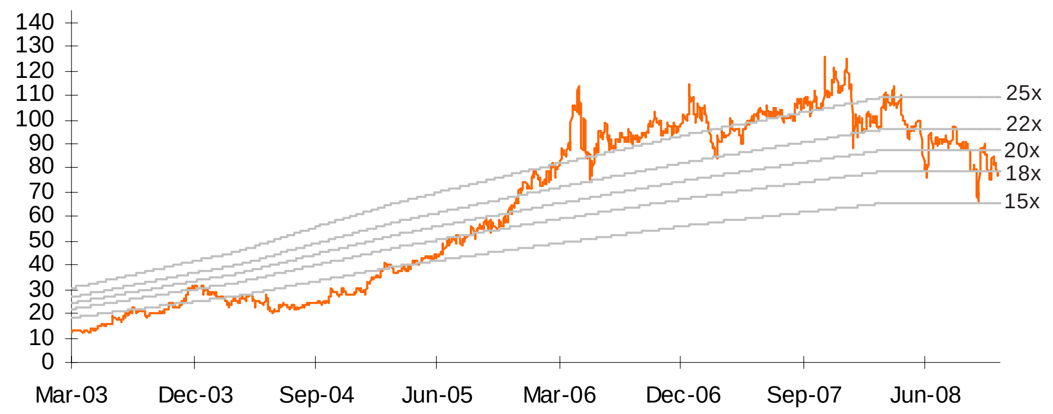
As Dabur's main offering in the oral care category are value for money products. The economy segment carries the concern of high price elasticity, which was seen during H1FY09 when Babool registered flat sales growth due to a price hike from INR10 to INR11, resulting in loss of market share to Cibaca. The company had to reduce the pricing to the original price of INR10 and is also offering higher content for the same price. This has resulted in the current revival in sales. However, with falling commodity prices, small players could attempt to increase their presence in the segment and could be a source of competition for Dabur.

Valuation

One-year forward PE valuations imply a price target of INR90

At the CMP of INR84, the stock is trading at 19.2x FY09e earnings and at 16.8x FY10e earnings. Over the last 5 years, the stock has traded in a PE band of 12x-26.6x. It has been re-rated consistently during FY05-07, due to the strong growth in earnings of 35% (CAGR). However, in FY08, the stock was de-rated because of a slowdown in earnings growth due to the higher input cost pressure. Further, during both years, the company lacked levers for growth on account of the slowdown in oral care and foods, which combined contribute around 25% towards company sales. Even in the home care business, which was supposed to be one of the future growth drivers, it witnessed a slowdown in FY09. Therefore, in the short-to-medium term, we do not expect any case for re-rating, as the company does not see any traction in its key growth drivers such as oral care, home care and foods. Also, its consumer health division is witnessing a slowdown. Hence, on a one-year forward PE basis, we believe that the stock would trade at a discount over its 5-year average one forward PE multiple of 20.7x. Further, we see better-placed companies in the event of a demand slowdown in the FMCG sector over Dabur. We believe that the company would trade at one-year forward valuations of 18x, which implies a price target of INR90, providing a 7% upside. Therefore, we recommend a HOLD on the stock at current levels.

PE band



Source: Bloomberg , Antique

Financials (INR m)

Profit & Loss account

Year ended 31st March	2007	2008	2009e	2010e	2011e
Revenues	20,431	23,611	27,660	32,235	37,173
Expenses	16,934	19,517	22,968	26,704	30,735
EBITDA	3,497	4,093	4,692	5,531	6,438
Depreciation & amortisation	408	421	485	570	590
EBIT	3,090	3,672	4,207	4,961	5,848
Interest expense	154	168	165	180	150
Other income	259	340	200	65	210
Profit before tax	3,195	3,845	4,242	4,846	5,908
Taxes incl deferred taxation	373	507	479	548	668
Profit after tax	2,830	3,339	3,766	4,318	5,265
Adjusted profit after tax	2,822	3,338	3,763	4,299	5,241
Recurring EPS (INR)	3.3	3.9	4.4	5.0	6.1

Balance Sheet

Year ended 31st March	2007	2008	2009E	2010E	2011E
Share Capital	863	864	863	863	863
Reserves & Surplus	3,978	5,359	7,273	9,213	11,554
Networth	4,840	6,223	8,135	10,076	12,417
Debt	1,599	992	992	2,492	492
Capital Employed	6,439	7,215	9,127	12,568	12,909
Gross Fixed Assets	6,099	6,853	9,953	11,453	11,753
Accumulated Depreciation	(2,381)	(2,644)	(3,109)	(3,659)	(4,229)
Net Assets	3,719	4,209	6,844	7,794	7,524
Capital work in progress	**73**	**443**	**443**	**443**	**443**
Investments	**807**	**2,037**	**37**	**1,000**	**1,000**
Current Assets, Loans & Advances					
Inventory	2,571	3,025	3,600	4,800	5,100
Debtors	1,420	1,723	2,100	3,500	3,500
Cash & Bank balance	607	766	176	159	2,202
Loans & advances and others	1,807	2,225	2,425	3,425	3,425
Current Liabilities & Provisions					
Creditors	3,615	4,580	5,500	6,500	7,500
Other liabilities & provisions	902	2,741	1,274	2,305	3,007
Net Current Assets	1,887	418	1,527	3,080	3,720
Deferred tax assets/(liabilities)	(245)	(33)	(54)	(78)	(108)
Misc.Expenses	198	140	329	329	329
Application of Funds	6,440	7,215	9,127	12,568	12,909

Per share data

Year ended 31st March	2007	2008	2009E	2010E	2011E
No. of shares (m)	862.9	864.0	862.9	862.9	862.9
BVPS (INR)	5.6	7.2	9.4	11.7	14.4
CEPS (INR)	2.8	3.4	3.8	4.3	5.4
DPS (INR)	**1.4**	**1.8**	**2.1**	**2.4**	**2.9**

Margins (%)

Year ended 31st March	2007	2008	2009E	2010E	2011E
EBITDA	17%	17%	17%	17%	17%
EBIT	15%	16%	15%	15%	16%
PAT	14%	14%	14%	13%	14%

Source: Antique

Key Assumptions

Year ended 31st March	2007	2008	2009e	2010e	2011e
CCD sales (INRm)	13,961	15,890	17,722	19,163	21,314
CHD sales (INRm)	1,470	1,547	1,903	2,188	2,516
IBD sales (INRm)	2,990	3,756	5,263	6,578	8,223
Foods sales (INRm)	2,009	2,408	2,697	3,102	3,660
Raw material cost as % of net sales	47.5%	46.6%	49.3%	48.1%	48.2%

Cash Flow Statement

Year ended 31st March	2007	2008	2009E	2010E	2011E
EBIT	3,090	3,672	4,207	4,961	5,848
Depreciation & amortisation	408	421	485	570	590
Interest expense	(154)	(168)	(165)	(180)	(150)
(Inc)/Dec in working capital	(1,440)	1,628	(1,699)	(1,568)	1,402
Tax paid	(373)	(507)	(479)	(548)	(668)
Cash flow from operating activities	1,531	5,047	2,349	3,235	7,023
Capital expenditure	1,042	(1,124)	(3,100)	(1,500)	(300)
Inc/(Dec) in investments	(386)	(1,230)	2,000	(963)	-
Income from investments	259	340	200	65	210
Cash flow from investing activities	916	(2,014)	(900)	(2,398)	(90)
Inc/(Dec) in share capital	-	1	(1)	-	-
Inc/(Dec) in debt	556	(607)	-	1,500	(2,000)
Dividends paid	(1,392)	(1,789)	(2,018)	(2,334)	(2,870)
Others	(1,515)	(478)	(20)	(20)	(20)
Cash flow from financing activities	(2,351)	(2,874)	(2,039)	(854)	(4,890)
Net cash flow	95	159	(590)	(16)	2,043
Opening balance	512	607	766	176	159
Closing balance	607	766	176	159	2,202

Growth Indicators

Year ended 31st March	2007	2008	2009E	2010E	2011E
Revenue	10%	16%	17%	17%	15%
EBITDA	20%	17%	15%	18%	16%
PAT	25%	18%	13%	14%	22%
EPS	25%	18%	13%	15%	22%

Valuation (x)

Year ended 31st March	2007	2008	2009E	2010E	2011E
PE	25.6	21.7	19.2	16.8	13.7
P/BV	14.9	11.6	8.9	7.2	5.8
EV/EBITDA	20.8	17.8	15.5	13.1	11.3
EV/Sales	3.6	3.1	2.6	2.3	2.0
Dividend Yield (%)	1.7%	2.2%	2.5%	2.8%	3.4%

Financial Ratios

Year ended 31st March	2007	2008	2009E	2010E	2011E
RoE	58%	54%	46%	43%	42%
RoCE	48%	51%	46%	39%	45%
Debt/Equity (x)	0.3	0.2	0.1	0.2	0.0
EBIT/Interest (x)	(20.1)	(21.9)	(25.5)	(27.6)	(39.0)

Godrej Consumer Products Ltd.

The dye is fading

HOLD | **CMP: INR 129** | **Target Price: INR 139**

ANTIQUE

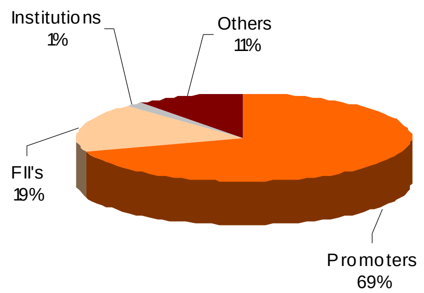
December 19, 2008 | Strictly confidential

Market Data		
Sector	:	FMCG
Market Cap (INRm)	:	33
Market Cap (USDm)	:	0.71
O/S shares (m)	:	259
Free Float (m)	:	80
52-wk HI/LO (INR)	:	152/87
Avg Daily Vol	:	30,000
Face Value (INR)	:	10
Bloomberg	:	GCPL IN
Reuters	:	GOCP.BO

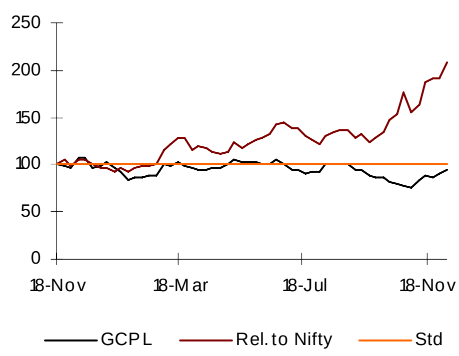
Price Performance

	1m	3m	6m	12m
Absolute	13	10	(6)	(1)
Relative	(2)	53	40	87

Shareholding Pattern



Price Performance Vs NIFTY



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Investment Highlights

- Soaps would be the flag bearer for GCPL in a probable scenario of slowdown. We believe expected higher growth in the economy segment in a slowdown would favor GCPL. We feel that its economy brand, Godrej No 1, would lead to a 15.5% CAGR in soap revenues in FY08-10e to INR7.6bn
- GCPL's Hair color business expected to under-perform the industry growth due to continued shift in preference towards higher valued fashion colors. We expect GCPL's hair color revenues to grow at 10.5% (CAGR) during FY08-10e.
- International business would record revenues of INR3,059m during FY09e and INR3,332m during FY10e.
- Sharp rise in prices of key raw material, palm oil is expected to lead to about 436bps decline in EBITDA during FY09e to 15%. However with decline in crude oil prices leading to drop in palm oil prices, EBITDA margins during FY10e are expected to improve by 210bps to 17%.
- Sales to grow by a CAGR of 17.6%, while PAT to grow at a CAGR of 7.9% during FY08-10e

Risks

- Higher than expected growth in hair colors could surprise our estimates
- Aggressive pricing by bigger players could impact soap sales
- Improvement in margins could be higher over expected with sharp drop in palm oil prices

Valuation

At the CMP of INR129, the stock trades at 17.8x FY09e and at 15.7x FY10e earnings. Our PE-based valuation provides a price target of INR139 per share. This provides a 8% upside from the current levels.

Key financials

INRm	FY07	FY08	FY09e	FY10e	FY11e
Revenue	9,515	11,026	13,653	15,242	17,286
EBITDA	1,797	2,145	2,060	2,620	3,172
EBITDA margin (%)	19	19	15	17	18
EBITDA growth (%)	26	19	(4)	27	21
PAT	1,342	1,592	1,636	1,854	2,203
PAT growth (%)	11	19	3	13	19
EPS(INR)	5.9	7.1	7.2	8.2	9.8
EPS growth (%)	11	19	3	13	19
P/E	21.7	18.3	17.8	15.7	13.2
P/BV	23.9	17.0	11.0	9.0	7.5
EV/EBITDA	17.0	14.3	14.9	11.7	9.7
RoE (%)	110	93	62	57	56

Source: Antique

Investment arguments

Soaps would be the flag bearer for GCPL in a scenario of slowdown

GCPL has increased its market share in soaps from 7.3% in FY04 to 9.5% in FY08, led by Godrej No. 1.

During FY04-08, GCPL's soap business, which forms 51% of its consolidated sales, has been the key driver of growth recording INR5.7bn. The company has increased its market share in soaps from 7.3% in FY04 to 9.5% in FY08, led by Godrej No 1, which contributes around 65% of its total soap sales. The brand has increased its market share to the tune of 221 bps in the economy segment from 3.9% in FY04 to 6% in FY08. In a probable scenario of down-trading, the economy segment is expected to witness higher growth over popular and premium segments. This, in turn, would lead to a further increase in market share for Godrej No 1, which is one of the strongest brands in the economy segment, thereby augmenting GCPL's overall market share in soaps. Going forward, we expect its soaps division to grow at a CAGR of 15.5% in FY08-10e to INR7.6bn, led by higher volume growth.

Hair colours would continue to under-perform the industry growth

GCPL's market share in hair colours has gone down from 40.4% in FY04 to 35.1% in FY08.

GCPL's hair colour business (18.6% of consolidated sales) has witnessed a slowdown, particularly over the last 2 years. This has led to a slower growth of 15.5% (CAGR) to INR2.04bn in its hair colour business during FY04-08e as against the hair colour industry growth of 19% (CAGR). As a result, Godrej has been consistently losing its market share over the last 5 years. Its market share has gone down from 40.4% in FY04 to 35.1% in FY08. However, the company has been able to gain some volume market share during the same period. This indicates that though the company has gained market share in the economy segment, higher growth in the premium category has led to a loss in market share for GCPL. GCPL is essentially dominant in the economy segment through its powder hair dye, which is also the largest contributor to its hair colour sales (about 90% of hair colour sales). Therefore, with the shift in consumer preferences towards fashion colours, GCPL's powder hair dye has lost out, particularly to L'Oreal's fashion colours, leading to a loss of market share for the former and gain in market share for the latter. Going forward, we believe that the shift towards fashion colours would continue, and hence, we believe that the hair colour business would grow at a lower rate of 10.5% (CAGR) during FY08-10e to INR2.5bn.

International business to grow at a stable pace

International business would record revenues of INR3,059m during FY09e and INR3,332m during FY10e.

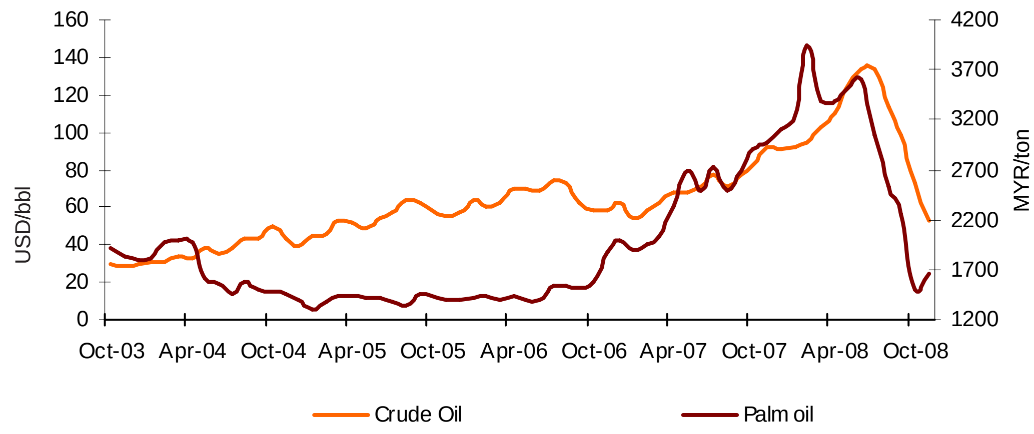
GCPL's international business, primarily comprising Keyline brands, Rapidol and Kinky, forms about 20% of its consolidated sales. Keyline brands manufactures and markets cosmetics, toiletries and men's grooming products in Europe, Australia, Canada and the Middle East. Rapidol markets hair colour brands such as Enecto and Soflene across South Africa and other African nations. Kinky manufactures and markets a variety of products such as hair, hair braids, hair pieces, wigs and wefted pieces in South Africa through cash-n-carry stores and owned-stores. We expect Keyline brands to grow at a CAGR of 11.4% during FY08-10e to INR2.08bn. In FY09e, the growth is expected to be higher at 16% to INR1.9bn due to the rupee depreciation. However, in FY10e, we believe that the growth would normalise and slow down to 7% to INR2.08bn. Rapidol is likely to grow at a CAGR of 11% during FY08-10e to INR580m, while kinky is expected to record sales of INR470m and INR541m in FY09e and FY10e, respectively.

We expect GCPL's raw material costs to decline by 210 bps to 49.8% in FY10e.

Decline in palm oil prices would aid profitability

IN FY09, GCPL's profitability has been primarily impacted by higher prices of key raw materials like palm oil. Consequently, gross margins in 1HFY09 have dropped by 542 bps to 44.4%, leading to a decline of about 496 bps in EBITDA margins to 13.1% during the period. Palm oil forms a key component of GCPL's largest contributor to sales, soaps. It accounts for around 30% of total soap sales and about 15% of consolidated net sales. Therefore, the substantial jump witnessed in prices of palm oil, due to the rising crude oil prices, led to the drop in overall profitability for GCPL. We expect that the company would record about 436bps decline in EBITDA margins to 15%. However, currently with the steep drop in crude oil prices, palm oil prices have also dropped. This, in turn, would lead to better margins for the company going forward. We believe that new contracts for palm oil would be effective for GCPL from Q4FY09, and hence, the impact of the lower input prices would be primarily witnessed in Q4FY09 and FY10e. As a result, we expect GCPL's raw material cost to decline by 210 bps to 49.8% in FY10e. This would lead to an increase in EBITDA margins to the tune of 210 bps to 17.2%.

Palm oil prices following Crude prices



Source: Bloomberg

Sales to grow by a CAGR of 17.6%, while PAT to grow at a CAGR of 7.9% during FY08-10e

During FY08-10e, sales are expected to grow at a CAGR of 17.6% to INR15.2bn. This would be primarily driven by a CAGR of 15.5% in soaps. EBITDA margins are expected to recover to 17.2%, with a decline in palm oil prices in FY10e after a drop from 19.5% in FY08 to 15.5% in FY09e. Profit after tax is expected to grow by a CAGR of 7.9% during FY08-10e to INR1,854m. The slower growth in profit after tax during FY08-10e would be on account of the 2.8% growth in profit after after tax during FY09e to INR1,636m.

Sales Break up

INRm	FY08	FY09e	FY10e
Godrej Brand Toilet Soaps	5,666	6,629	7,558
Hair Color	2,047	2,272	2,499
Liquid Detergents	385	481	519
Toiletries	575	673	807
Keyline brands	1,680	1,949	2,085
Rapidol	471	523	580
Kinky	-	470	541
others	252	656	652

Source: Company,Antique

Sales Mix(%)	FY08	FY09e	FY10e
Godrej Brand Toilet Soaps	51	49	50
Hair Color	18	17	16
Liquid Detergents	3	4	3
Toiletries	5	5	5
Keyline brands	15	14	14
Rapidol	4	4	4
Kinky	0	3	4
others	2	5	4

Source: Company,Antique

Risks

Higher than expected growth in hair colors could surprise our estimates

A probable slowdown in the economy and resultant slowdown in demand would lead to higher growth in the economy segment across product categories. This could be also true for GCPL's hair color business which primarily falls under the economy segment. A slowdown in demand for higher valued products could lead to short term reversal of trend in favor of powder hair dyes against fashion colors. This in turn could turn favorable for GCPL and may lead to higher than expected growth in the company's hair color business, which again may lead to higher than expected growth in profitability.

Aggressive pricing by bigger players could impact soap sales

GCPL's key driver of growth is expected to be the soaps business which again would be primarily driven by the company's economy segment brand, Godrej No 1. In the coming year in a scenario of slowdown, larger competitor and leader, Hindustan Unilever (HUL) could aggressively price its popular segment brands, Lifebuoy and Breeze to grab market share in the economy segment in soaps. The possibility of such a situation cannot be written off as GCPL is facing on its market share in soaps.

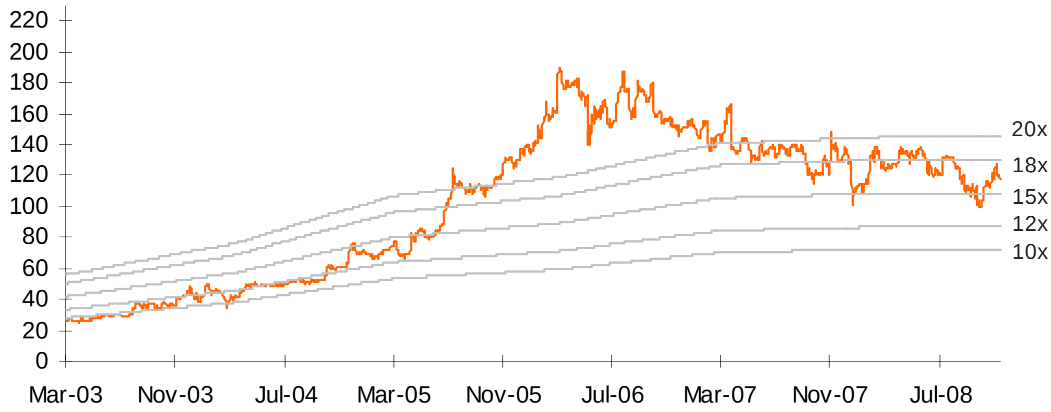
Improvement in margins could be higher over expected with sharp drop in palm oil prices

We expect EBITDA margins to improve by about 210bps during FY10e led by drop in palm oil prices. However with a continuing drop in crude oil prices, the drop in palm oil prices would be higher over our expectations which in turn could lead to higher than expected decline in raw material cost and hence higher than expected growth in EBITDA margins.

Valuation

At the CMP of INR129, the stock is trading at 17.8x FY09e and at 15.7x FY10e earnings. During the last 5 years, the stock has traded in a PE band of 12x-25x. The stock had been re-rated consistently during FY04-FY06 due to a CAGR of 19% in its key profit generator, hair colours, complemented with a growth of 17% (CAGR) and market share gains in its largest contributor to sales, soaps. However, with the slowdown in its hair colours business and loss of market share in the category during FY07 and FY08, the stock has witnessed a de-rating. Although GCPL would continue to gain market share in soaps in a scenario of slowdown and lower palm oil prices would aid profitability, we do not see any case of re-rating for the company from current levels. With the continued pressure on growth in the hair colour business, we expect it will hold back the case for re-rating. Therefore, we believe that the stock would trade at one-year forward PE valuations of 17x, and by applying the same we derive a target price of INR139, providing an 8% upside from current levels.

PE band



Source: Bloomberg, Antique

Financials (INR m)

Profit & Loss account

Year ended 31st March	2007	2008	2009e	2010e	2011e
Revenues	9,515	11,026	13,653	15,242	17,286
Expenses	7,718	8,881	11,593	12,622	14,114
EBITDA	1,797	2,145	2,060	2,620	3,172
Depreciation & amortisation	142	182	210	330	430
EBIT	1,655	1,963	1,850	2,290	2,742
Interest expense	96	126	(102)	84	97
Other income	26	38	43	43	43
Profit before tax	1,585	1,875	1,996	2,250	2,689
Taxes incl deferred taxation	243	283	359	395	486
Profit after tax	1,440	1,592	1,636	1,854	2,203
Adjusted profit after tax	1,342	1,592	1,636	1,854	2,203
Recurring EPS (INR)	5.9	7.1	7.2	8.2	9.8

Balance Sheet

Year ended 31st March	2007	2008	2009E	2010E	2011E
Share Capital	226	226	258	258	258
Reserves & Surplus	994	1,490	2,393	2,967	3,649
Networth	1,220	1,716	2,652	3,225	3,907
Debt	1,736	1,871	1,771	2,221	2,531
Capital Employed	2,956	3,587	4,423	5,446	6,438
Gross Fixed Assets	2,699	2,937	3,637	6,637	6,837
Accumulated Depreciation	(1,105)	(1,253)	(1,463)	(1,793)	(2,223)
Net Assets	1,594	1,683	2,173	4,843	4,613
Capital work in progress	**1,284**	**1,672**	**1,672**	**1,672**	**1,672**
Investments	**0**	**0**	**-**	**-**	**-**
Current Assets, Loans & Advances					
Inventory	1,352	1,916	2,244	2,714	2,841
Debtors	483	510	673	710	852
Cash & Bank balance	475	426	2,153	30	99
Loans & advances and others	465	668	668	668	668
Current Liabilities & Provisions					
Creditors	2,520	2,904	4,489	4,593	3,789
Other liabilities & provisions	97	322	596	502	401
Net Current Assets	158	292	654	(973)	271
Deferred tax assets/(liabilities)	(80)	(89)	(106)	(124)	(147)
Misc.Expenses	-	29	29	29	29
Application of Funds	2,956	3,587	4,423	5,446	6,438

Per share data

Year ended 31st March	2007	2008	2009E	2010E	2011E
No. of shares (m)	225.8	225.8	225.8	225.8	225.8
BVPS (INR)	5.4	7.6	11.7	14.3	17.3
CEPS (INR)	5.3	6.2	6.3	6.7	7.9
DPS (INR)	3.7	4.1	4.3	4.8	5.8

Margins (%)

Year ended 31st March	2007	2008	2009E	2010E	2011E
EBITDA	19%	19%	15%	17%	18%
EBIT	17%	18%	14%	15%	16%
PAT	14%	14%	12%	12%	13%

Key Assumptions

Year ended 31st March	2007	2008	2009e	2010e	2011e
Soaps sales (INRm)	4,751	5,666	6,629	7,558	8,691
Hair colors sales (INRm)	1,819	2,047	2,272	2,499	2,699
Raw material cost as % of net sales	48.6%	47.8%	51.9%	49.8%	47.9%
Advertisement expenditure as % of net sales	8.1%	8.3%	8.3%	8.5%	8.8%
Other expenditure as % of net sales	24.4%	25.3%	24.7%	24.5%	25.0%

Cash Flow Statement

Year ended 31st March	2007	2008	2009E	2010E	2011E
EBIT	1,655	1,963	1,850	2,290	2,742
Depreciation & amortisation	142	182	210	330	430
Interest expense	(96)	(126)	102	(84)	(97)
(Inc)/Dec in working capital	(118)	(183)	1,365	(495)	(1,176)
Tax paid	(243)	(283)	(359)	(395)	(486)
Cash flow from operating activities	1,339	1,554	3,168	1,646	1,414
Capital expenditure	(1,290)	(626)	(700)	(3,000)	(200)
Inc/(Dec) in investments	-	-	-	-	-
Income from investments	73	26	38	43	43
Cash flow from investing activities	(1,217)	(599)	(662)	(2,957)	(157)
Inc/(Dec) in share capital	0	-	429	-	-
Inc/(Dec) in debt	1,049	135	(100)	450	310
Dividends paid	(974)	(351)	(1,130)	(1,280)	(1,521)
Others	14	(787)	23	19	22
Cash flow from financing activities	89	(1,004)	(778)	(810)	(1,188)
Net cash flow	211	(49)	1,727	(2,123)	69
Opening balance	264	475	426	2153	30
Closing balance	475	426	2,153	30	99

Growth Indicators

Year ended 31st March	2007	2008	2009E	2010E	2011E
Revenue	36%	16%	24%	12%	13%
EBITDA	26%	19%	-4%	27%	21%
PAT	11%	19%	3%	13%	19%
EPS	11%	19%	3%	13%	19%

Valuation (x)

Year ended 31st March	2007	2008	2009E	2010E	2011E
PE	21.7	18.3	17.8	15.7	13.2
P/BV	23.9	17.0	11.0	9.0	7.5
EV/EBITDA	17.0	14.3	14.9	11.7	9.7
EV/Sales	3.2	2.8	2.2	2.0	1.8
Dividend Yield (%)	2.9%	3.2%	3.3%	3.7%	4.5%

Financial Ratios

Year ended 31st March	2007	2008	2009E	2010E	2011E
RoE	110%	93%	62%	57%	56%
RoCE	56%	55%	42%	42%	43%
Debt/Equity (x)	1.4	1.1	0.7	0.7	0.6
EBIT/Interest (x)	(17.2)	(15.6)	18.1	(27.4)	(28.3)

Source: Antique

Equity Sales		
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Mr. Dharmesh Dalal	91-22-4031-3331	dharmesh@antiquelimited.com
Mr. Manish Shah	91-22-4031-3332	manish@antiquelimited.com
Mr. Shiv Diwan	91-22-4031-3346	shiv.diwan@antiquelimited.com
Mr. Viraaj Teckchandani	91-22-4031-3327	viraaj@antiquelimited.com
Mr. Chaitanya Kotadia	91-22-4031-3336	chaitanya@antiquelimited.com
Mr. Anuj Sonpal	91-22-4031-3326	anuj@antiquelimited.com
Derivative Sales		
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Mr. Gaurav Kedia	91-22-4031-3349	gaurav.kedia@antiquelimited.com
Research		
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	Promoters	Directors	Analyst
Ownership in Stock	No	No	No

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