

HINDUSTAN UNILEVER

Royalty spoils the show

India Equity Research | Consumer Goods



Hindustan Unilever's (HUL) Q3FY13 sales and PAT were in line with our estimates. Key positives include: (1) revival in beverages portfolio led by tea, which gained share due to innovations and inflationary scenario; (2) second quarter of recovery in oral care; and (3) recovery in personal products (PP) margins and CSD sales. Key negatives were: (1) dip in soaps & detergents (S&D) EBIT margin due to step up in A&P (due to new launch of Lifebuoy and GCPL's Cinthol relaunch); (2) moderation in volume growth to 5% YoY (on base of 9.1% YoY) due to slowdown in discretionary segment of personal care and foods; and (3) increase in royalty from current 1.4% to 3.15% by March 2018 (lower than Indonesia's increase from 3.5% to 8.0%). The increase in royalty and tax implies that HUL will post earnings CAGR of ~9.8% in FY13-15E versus ~24.9% in FY11-13E. With the stock trading at 29.4x FY14E P/E, we downgrade to 'REDUCE' from 'HOLD'.

Royalty hike takes the sheen away

HUL has hiked royalty payments to its parent Unilever from February 2013 from 1.4% of turnover to 3.15% in a phased manner till 2018. This increase comes at a time when: (a) HUL reported its slowest volume growth in 12 quarters; and (b) increase in tax by 200bps in FY14E and 250bps in FY15E. However, new products from Unilever have 60bps higher gross margin and sales are growing at 6x HUL and will see a step up.

Volume growth moderates; slowdown in discretionary segment

HUL's like-to-like revenue (excluding exports business) grew 15.7% YoY in Q3FY13. S&D sales rose 19.8% YoY. PP sales (up 13% YoY) continued to be impacted by price hike in *Fair & Lovely* sachets (from INR7 to INR8). Beverages posted a strong 18.2% YoY growth.

Outlook and valuations: Royalty overhang; downgrade to 'REDUCE'

We continue to like HUL's revenue growth from a medium to long term perspective. Also, palm oil correction will benefit S&D gross margin over the medium term. However, with the stock trading at 29.4x FY14E P/E and slowdown in earnings due to royalty and taxes, we downgrade our recommendation to 'REDUCE' from 'HOLD' and rate it 'Sector Underperformer'.

Financials	(INR mn)							
Year to March	Q3FY13	Q3FY12	% change	Q2FY13	% change	FY12	FY13E	FY14E
Total op. inc	66,548	59,555	11.7	63,108	5.5	234,363	267,567	301,771
EBITDA	10,888	9,705	12.2	9,767	11.5	34,836	40,522	44,882
Core profit	8,786	7,662	14.7	8,053	9.1	26,865	32,242	35,557
Dil. EPS (INR)	4.1	3.5	14.6	3.7	9.1	12.4	14.8	16.4
Diluted P/E (x)						38.8	32.4	29.4
EV/EBITDA (x)						28.6	24.3	21.7
ROAE (%)						83.4	75.0	64.9

* Quarterly nos. standalone; annual nos. consolidated

EDELWEISS 4D RATINGS	
Absolute Rating	REDUCE
Rating Relative to Sector	Underperformer
Risk Rating Relative to Sector	Low
Sector Relative to Market	Underweight

MARKET DATA (R: HLL.BO, B: HUVR IN)	
CMP	: INR 481
Target Price	: INR 458
52-week range (INR)	: 572 / 369
Share in issue (mn)	: 2,162.0
M cap (INR bn/USD mn)	: 1,040 / 19,323
Avg. Daily Vol.BSE/NSE('000)	: 2,388.7

SHARE HOLDING PATTERN (%)			
	Current	Q2FY13	Q1FY13
Promoters *	52.5	52.5	52.5
MF's, FI's & BK's	9.0	9.0	9.9
FII's	21.1	21.1	20.1
Others	17.4	17.4	17.6
* Promoters pledged shares (% of share in issue)	:	NIL	

PRICE PERFORMANCE (%)			
	Stock	Nifty	EW Consumer Goods Index
1 month	(8.8)	3.4	4.9
3 months	(14.3)	5.8	13.5
12 months	24.8	19.8	45.0

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HUL Q3FY13 concall: Key highlights

Volume growth: HUL's domestic consumer business grew 15% YoY with a volume growth of 5% YoY (lowest growth in 12 quarters) on a base of 9.1% YoY growth in Q3FY12. Volume growth was lower due to: (1) price hike in *Fair & Lovely* sachet from INR7 to INR8 (will take a few more months to pan out); (2) price hikes in *Dove* sachets from INR1.0 to INR1.5; (3) soft quarter for *Wheel*; and (4) slowdown in modern trade due to store closures.

Soaps & detergents: S&D grew 19.8% YoY. EBIT margin contracted 102bps YoY to 12.4% because of a significant step up in investments through A&P. However, the category's gross margin expanded YoY. With lower commodity prices, the tendency of local players re-entering the segment increases. The laundry portfolio posted a strong performance across most formats, with both *Surf* and *Rin* registering double digit volume growth. *Surf* growth was aided by the *Easy Wash* launch, and *Rin* growth can be attributed to bars. However, *Wheel* faced issues, leading to slowdown. But, HUL has taken actions to correct this. Household care portfolio registered robust growth led by *Vim*. Skin cleansing continued good growth momentum. *Lifebuoy*, *Dove* and *Lux* registered strong growth. The liquids portfolio was extended with the introduction of the *Lifebuoy Colour Changing Handwash*.

Personal products: Personal products grew at 13% YoY. Margin improved 142bps YoY to 28.3%. Skin care growth was broad based; robust growth was seen particularly in creams with *Ponds Age Miracle* and in lotions with *Vaseline* and *Dove*. Hair care portfolio delivered strong growth led by premium formats. The initial results on *TRESemmé* have been positive with gains in the first three months of launch across all channels. The portfolio was extended with the launch of the *Dove Elixir* range of premium hair oils and a new styling range for men under *Brylcreem*. Oral care grew in double digits YoY (largely volume led) led by robust growth in *Close Up* and *Pepsodent* brand.

Beverages: Beverages grew 18.2% YoY with tea business delivering one of its strongest quarters with double digit growth across all brands at the premium and popular ends. Margin catapulted 203bps YoY to 17.7%. In tea business, extend distribution, impactful activation and continued market development of tea bags helped deliver high growth. Tea bags is a small category, growing strong and a future growth driver. In coffee, *Bru* sustained growth momentum with premium offerings continuing to perform well.

Packaged foods: Packaged foods business grew 7.7% YoY, and margin improved 115bps YoY as losses were curbed by INR34mn to INR26mn. *Kissan Ketchup* maintained double digit growth while growth accelerated in the *Knorr soups* portfolio. Actions were taken to manage the pipeline to prepare for the relaunch of *Soupy Noodles* with a superior mix at the end of the quarter. *Kwality Walls* registered moderate growth, impacted by slowdown in discretionary spending.

Water business: Pureit posted good growth despite slowdown in consumer durables market in India. The newly launched 'Marvella UV' & 'Advanced' were received well by consumers.

Royalty: HUL hiked royalty payments to parent Unilever for the provision of technology, trade mark licence and other services. The company board approved the royalty of 3.15% of turnover effective from February 2013 from the current 1.4%. HUL will increase the payment in a phased manner till March 2018. Taking this into account, the royalty for FY14 will stand at 1.9%, up 50bps from the current level.





Discretionary slowdown: HUL has witnessed some slowdown in growth in discretionary categories. However, management is positive on the outlook, banking on premiumisation over the long term.

Modern trade: Growth has slowed down in modern trade due to a slowdown in pace of store expansion and net store closure.

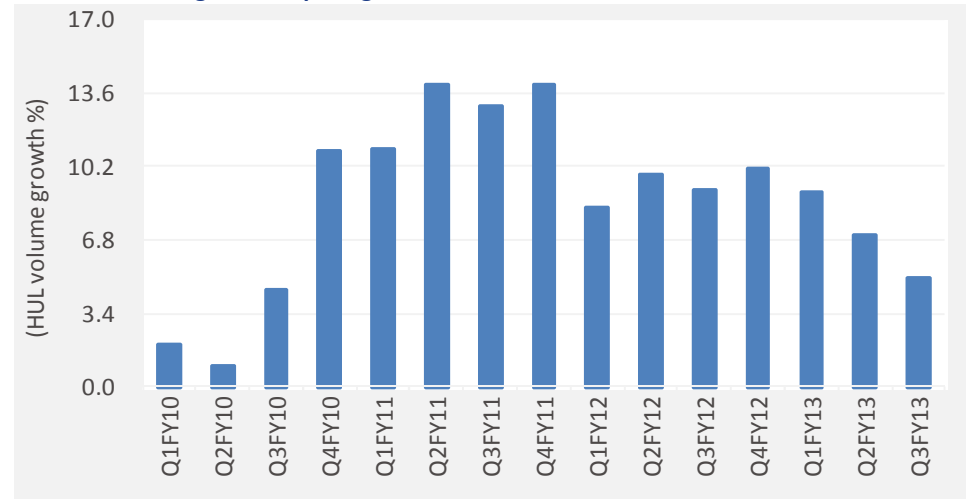
CSD: CSD business recovered in Q3FY13; but difficult to say if it is trend reversal. However, the recovery was offset by slow growth in modern trade channels.

New products do well, focus remains on innovation: Q3FY13 has been an innovation intensive quarter. The company launched *Lifebuoy Color Changing Handwash*, *Dove Elixir precious hair oils*, *Sunsilk perfect straight shampoo*, *Vaseline GermSafe healthy skin jelly*, *Brylcreem hair styling range for men* and relaunched *Knorr Soupy Noodles*. We believe HUL’s focus on keeping the consumer enthused with new and improved offerings will keep it a step ahead of competition.

Raw material scenario: Raw material scenario has been volatile over the past quarter—Brent has remained stable, forex has been volatile, PFAD is softening and tea prices have been soaring.

Tax rate: Management has guided tax rate for operations in FY13 at 24.5%; FY14 to be at 26.5%. FY15 tax is likely to inch up further to full tax rate at 29-33%. However, more clarity is awaited and will also depend on the direct tax code.

Chart 1: Volume growth tapering



Source: Company, Edelweiss research

Chart 2: A&P as % of sales increased YoY

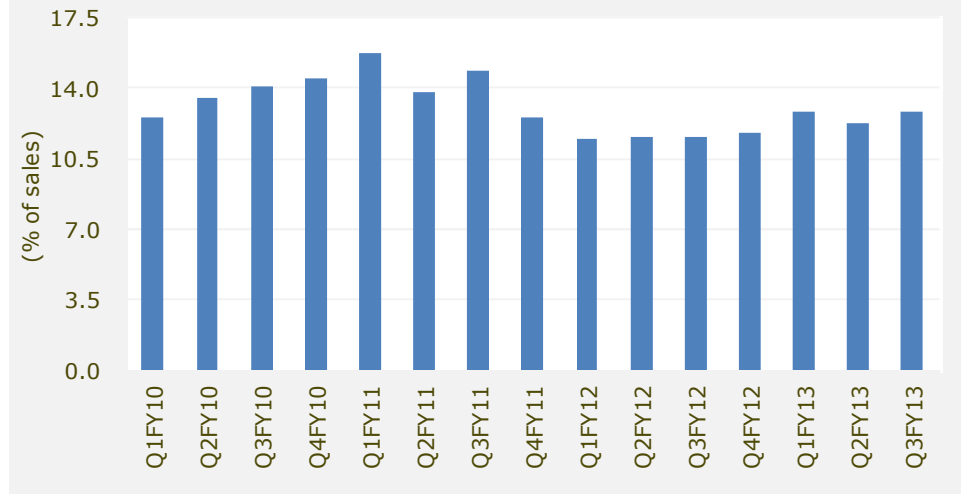
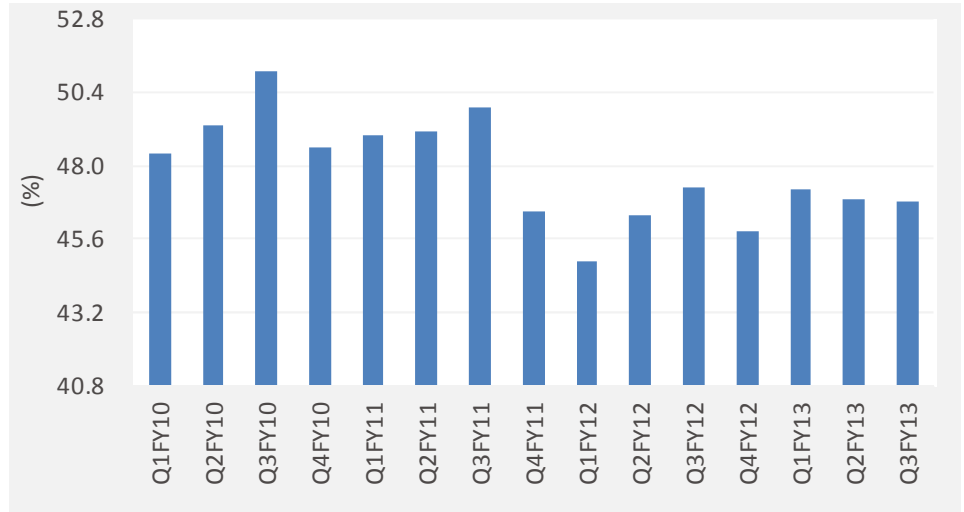


Chart 3: Gross margin decline YoY



Source: Company, Edelweiss research

Chart 4: Category-wise contribution - Sales

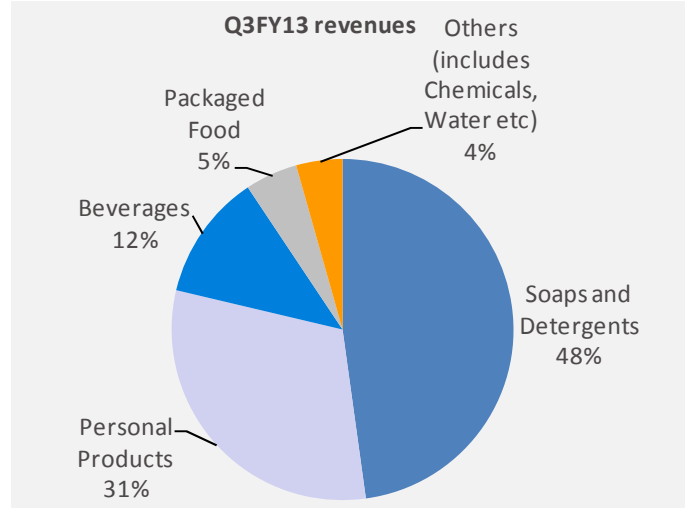
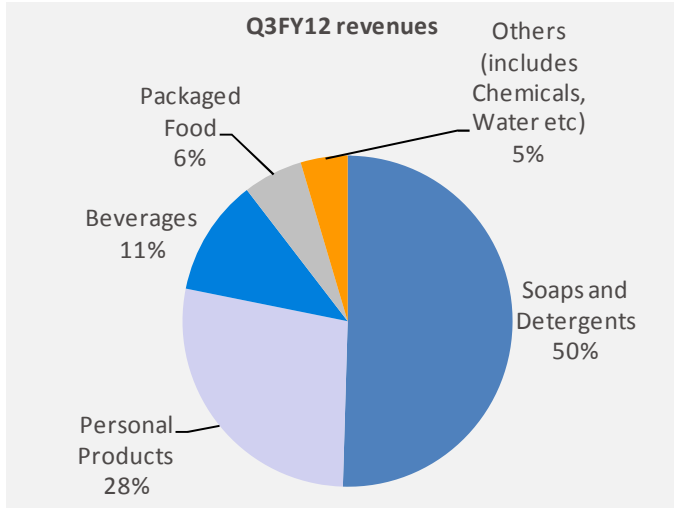


Chart 5: Category-wise contribution - EBIT

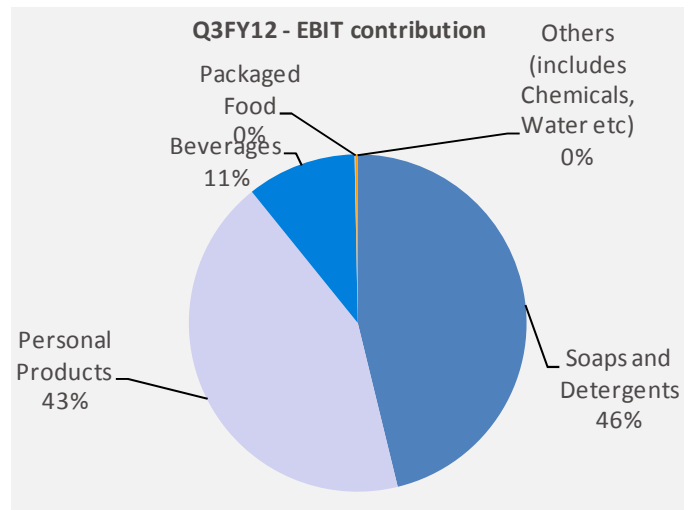
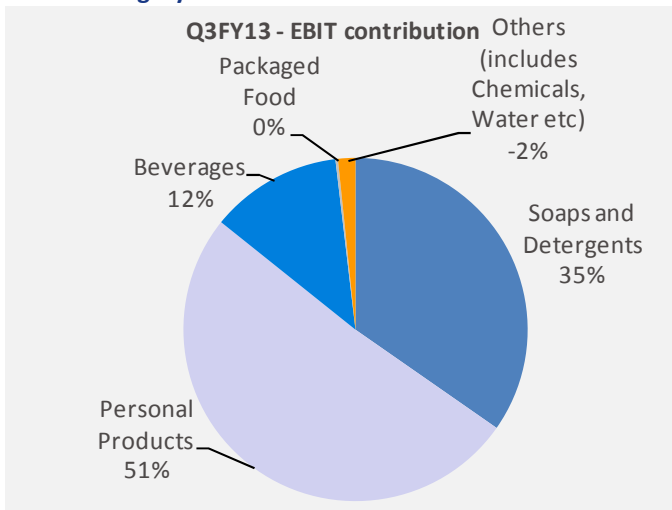


Chart 6: S&D YoY revenue growth

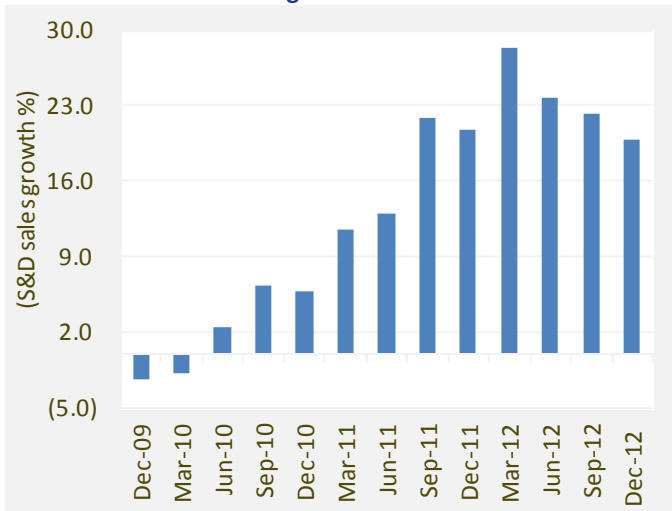
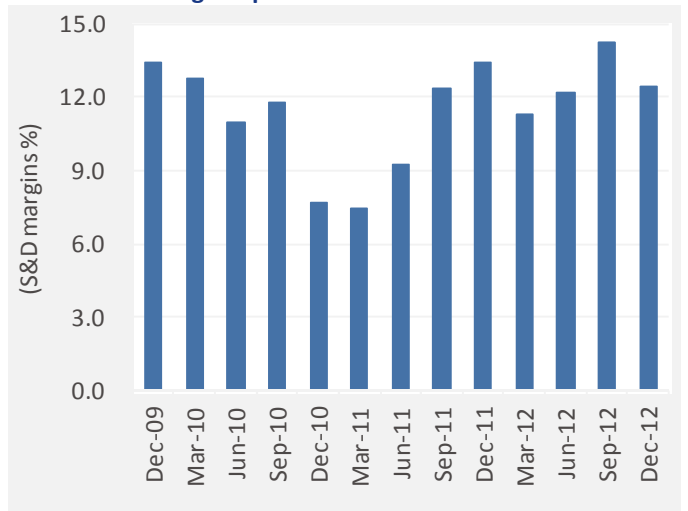


Chart 7: S&D margin dip YoY



Source: Company, Edelweiss research

Chart 8: PP revenue growth YoY

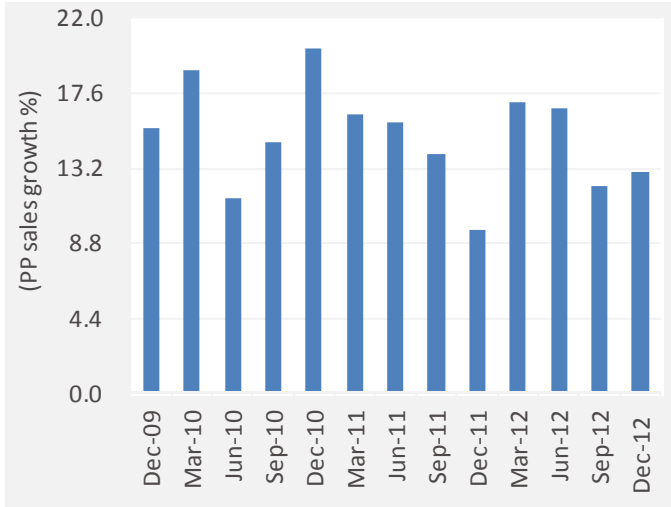


Chart 9: PP margin expand YoY

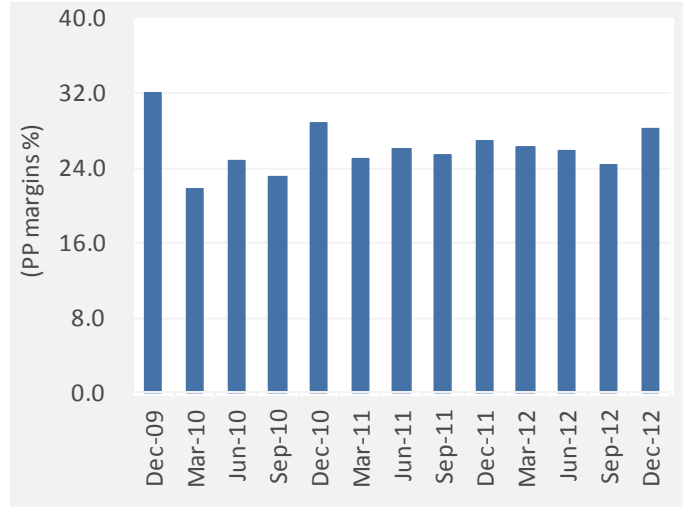


Chart 10: Beverages sales growth head north

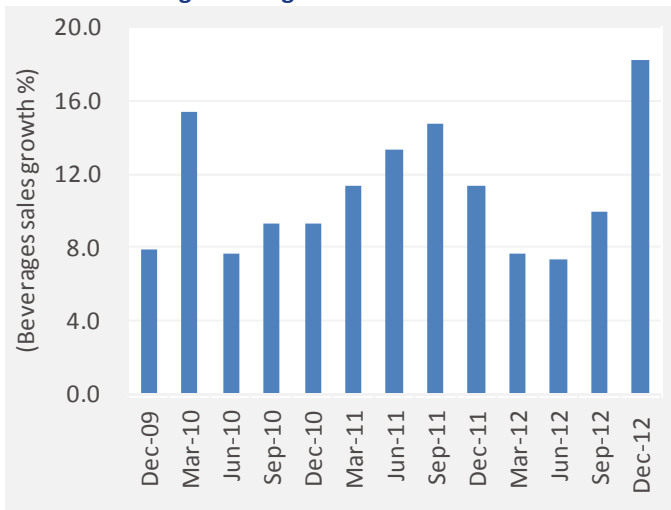


Chart 11: Beverages margin surges YoY

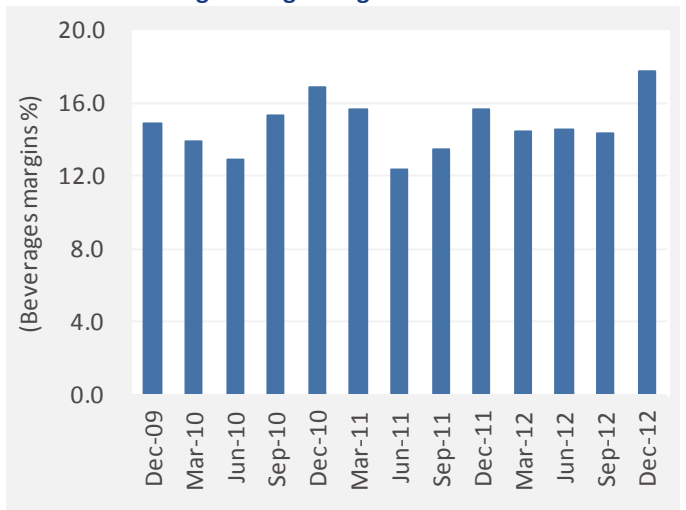


Chart 12: Packaged food sales growth slows down

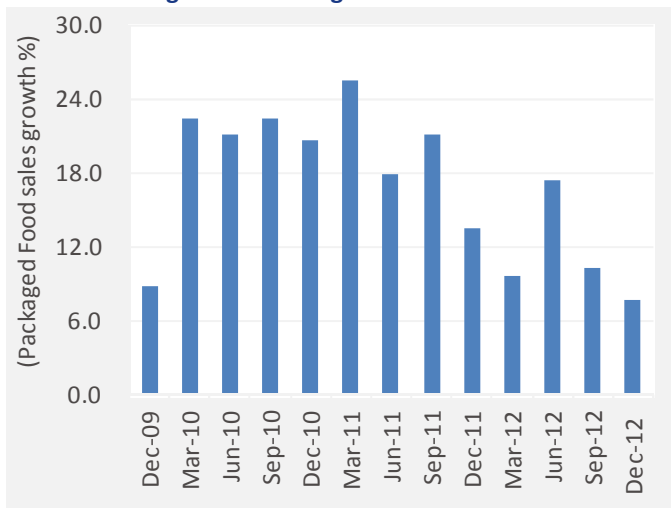
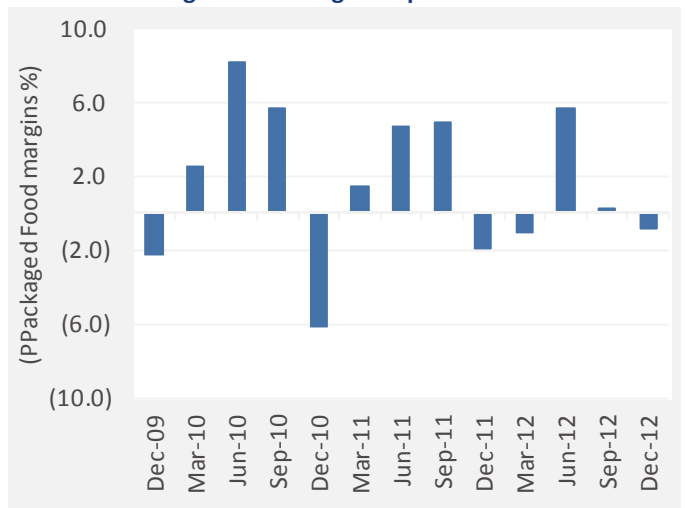


Chart 13: Packaged food margins expand YoY



Source: Company, Edelweiss research

Table 1: Segmental performance

Year to March - Revenues (INR mn)	Q3FY13	Q3FY12	YoY growth	Q2FY13	QoQ growth
Soaps and Detergents	31,712	26,481	19.8	31,762	(0.2)
Personal products	20,489	18,134	13.0	17,445	17.4
Beverages	7,929	6,709	18.2	7,196	10.2
Packaged food	3,301	3,067	7.7	3,663	(9.9)
Others (includes chemicals, water etc)	2,902	5,104	(43.1)	2,884	0.6
Segment results (Profit/(Loss) before tax and interest)					
Soaps and Detergents	3,937	3,559	10.6	4,536	(13.2)
Personal products	5,789	4,865	19.0	4,226	37.0
Beverages	1,404	1,052	33.5	1,031	36.2
Packaged food	(26)	(60)	55.9	9	392.2
Others (includes chemicals, water etc)	(186)	359	(151.9)	21	1,009.3
Segment margins					
Year to March - Margin (%)	Q3FY13	Q3FY12	YoY growth (bps)	Q2FY13	QoQ growth (bps)
Soaps and Detergents	12.4	13.4	(102)	14.3	(186)
Personal products	28.3	26.8	142	24.2	403
Beverages	17.7	15.7	203	14.3	338
Packaged food	(0.8)	(1.9)	115	0.2	(104)
Others (includes chemicals, water etc)	(6.4)	7.0	(1,346)	0.7	(713)

Source: Company, Edelweiss research

Table 2: Royalty paid by other MNC's

Royalty as % of sales	FY12	FY11	FY10
Colgate	5.1	4.9	4.2
Hindustan Unilever	1.4	1.4	0.9
PGHHC	NA	5.0	6.2
Agrotech**	0.2	0.2	0.1
GSKCH*	3.3	3.4	3.5
Nestle*	3.9	4.0	3.9
Royalty as % of net profit	FY12	FY11	FY10
Colgate	31.6	28.1	20.6
Hindustan Unilever	11.0	11.7	7.3
PGHHC	NA	34.3	32.4
Agrotech**	3.7	4.4	3.8
GSKCH*	26.2	27.3	30.2
Nestle*	30.9	30.4	31.0

Source: Company, Edelweiss research

*CY ending

**royalty paid on only 17% of total sales

Table 3: HUL LTL numbers (ex FMCG exports)

(INR mn)	Q3FY13	Q3FY12	YoY growth
Net Sales	6,434	5,559	15.7
EBITDA	1,089	928	17.3
EBIT	1,030	876	17.5
PAT	871	725	20.1

Source: Company, Edelweiss research

Chart 14: Palm oil prices correct



Source: Company, Edelweiss research

Other key developments

- HUL launched *Lux Body Sprays* recently to tap the potential of the INR10bn plus deo market growing at 25% CAGR.
- **Dove Elixir:** With the launch of *Dove Elixir*, HUL has extended *Dove* to premium hair oils. This shows HUL's rising interest in the premium hair oils category (INR67bn). It has small presence in hair oil via *Clinic Plus* in select markets. *Dove Elixir* is a super-premium offering in the light hair oil segment (growing at 25% CAGR) priced at INR185 for 90ml. The 4x price to that of competitors needs to be seen in context of innovative packaging (pumping action) and the strong brand equity of *Dove* (presence in deodorants, body wash, shampoos, conditioners, face wash and lotions). HUL had sold *Nihar* hair oil to Marico in 2006. Some of the competitors in the space include *Dabur Almond hair oil* (INR50 for 100ml), Emami's *Navratna thanda oil* (INR55 for 100ml), Marico's *Parachute Scalp Therapie* (INR125 for 100ml) and Bajaj Corp's *Bajaj Almond Drops* (INR50 for 100ml). HUL's *Dove* brand now has presence across hair care space with shampoo, conditioner, serum and hair oils. Hair oil consumption in India remains strong as many hair dye consumers have started using hair oils (likely hair damage in some cases with excessive use of chemicals). We expect the new offering to have a niche customer base. In order to become big it will have to be backed by heavy advertising and commensurate value proposition (as it is priced ~4x competition). Shahrukh Khan and Katrina Kaif were roped in to endorse two new *Lux* soap variants.
- Unilever opened a R&D centre in Bengaluru; formally inaugurated by CEO Paul Polman.
- HUL recently launched an ad campaign on All India Radio which asked listeners across UP and Bihar to give a missed call on a number. Those who made the call were entertained with humorous jokes that contain messages about HUL's detergent brand *Wheel*. Till now, around 5mn missed calls have been received from 0.77mn unique numbers.
- HUL has elevated Human Resource Head and Executive Director Leena Nair as its global Senior Vice-president for leadership and organisation development.
- HUL has become the only company to win the IR Global Ranking awards this year in India in 3 out of 4 categories. It is a winner in IR website, Online annual report and Financial disclosures categories.
- Importance of India is increasing for Unilever as innovations are happening in India and are getting bigger; aims to get 75% of revenue from emerging markets by 2020, up from the current 55%.
- Pureit, entirely developed in India, is now sold in at least 15 other countries.
- Learnings from India, such as lower price points for products in smaller packages or sachets (available at GBP1), is gaining acceptance in Europe.

Outlook and valuations: Expensive; downgrade to 'REDUCE'

We like HUL's strategy of investing in categories that will pay rich dividends from a 3-5 year perspective and focus on new product launches and market share gains in existing categories. We like its revenue growth from a medium to long term perspective, however increase in royalty, steep hike in tax rate (up 200bps and 250bps YoY for FY14E and FY15E respectively) and slowdown in discretionary segments remains an overhang. On these concerns we have cut our PAT for FY13E and FY14E by 3.2% & 7.1% respectively. HUL's earnings have slowed from FY11-13E CAGR of 24.9% to FY13E-15E CAGR of 9.8%. Hence, we reduce target P/E to 28x (32x earlier) for FY14E arriving at a target price of INR458. Hence, we downgrade our recommendation to '**REDUCE**' from 'HOLD' and rate the stock '**Sector Underperformer**' on relative return basis.

Financial snapshot
(INR mn)

Year to March	Q3FY13	Q3FY12	% change	Q2FY13	% change	YTD13	FY13E	FY14E
Net sales	64,337	58,443	10.1	61,554	4.5	188,393	261,959	295,602
Other operating income	2,211	1,112	98.8	1,554	42.3	5,052	5,608	6,168
Total operating income	66,548	59,555	11.7	63,108	5.5	193,444	267,567	301,771
Cost of goods sold	34,191	30,799	11.0	32,695	4.6	100,563	139,658	156,369
Gross profit	32,357	28,756	12.5	30,414	6.4	92,881	127,909	145,402
Staff costs	3,427	2,741	25.0	3,305	3.7	10,061	13,806	15,722
Advt. sales & promotions	8,222	6,902	19.1	7,690	6.9	24,108	32,376	36,816
Other expenses	9,821	9,408	4.4	9,652	1.8	28,393	41,205	47,982
Total expenditure	21,470	19,051	12.7	20,646	4.0	62,562	87,387	100,520
EBITDA	10,888	9,705	12.2	9,767	11.5	30,320	40,522	44,882
Depreciation & amortization	593	568	4.3	577	2.8	1,746	2,657	2,913
EBIT	10,295	9,137	12.7	9,191	12.0	28,574	37,865	41,969
Interest	75	5	1,573.3	63	19.0	191	320	220
Profit before tax	11,557	9,933	16.3	10,615	8.9	33,393	42,727	48,377
Provision for taxes	2,771	2,271	22.0	2,561	8.2	9,288	10,485	12,820
Core profit	8,786	7,662	14.7	8,053	9.1	24,105	32,242	35,557
Exceptionals	(73)	(124)	NA	16	NA	5,990	4,697	-
Net profit	8,714	7,538	15.6	8,069	8.0	30,095	36,789	35,388
EPS (INR)	4.1	3.5		3.7		13.9	14.8	16.4

As % of net revenues

Other operational income	3.4	1.9		2.5		2.7	2.1	2.1
COGS	53.1	52.7		53.1		53.4	53.3	52.9
Employee cost	5.3	4.7		5.4		5.3	5.3	5.3
Adv. & sales promotions	12.8	11.8		12.5		12.8	12.4	12.5
Other expenditure	15.3	16.1		15.7		15.1	15.7	16.2
EBITDA	16.9	16.6		15.9		16.1	15.5	15.2
PBT	18.0	17.0		17.2		17.7	16.3	16.4
Reported net profit	13.7	13.1		13.1		12.8	12.3	12.0
Tax rate	24.0	22.9		24.1		27.8	24.5	26.5

* Quarterly nos. standalone; annual nos. consolidated

Note: Other operating income includes income from outsourcing which are largely EBITDA neutral; all ratios are computed as % of net sales

Change in Estimates

	FY13E			FY14E			Comments
	New	Old	% change	New	Old	% change	
Net Revenue	261,959	264,653	(1.0)	295,602	302,210	(2.2)	Slight volume slowdown in discretionary PP and foods
EBITDA	40,522	41,461	(2.3)	44,882	48,118	(6.7)	Reduction in palm oil prices to benefit gross margins but high A&P and 0.5bps YoY increase in royalty expenses to take margin hit
EBITDA Margin	15.5	15.7		15.2	15.9		
Core profit	32,242	33,295	(3.2)	35,557	38,288	(7.1)	Margin pressure coupled with sharp increase in tax rate (up 200bps YoY)
PAT Margin	12.3	12.5		12.0	12.6		
Capex	4,724	4,724	0.0	4,750	4,750	0.0	

Company Description

HUL, the largest FMCG Company in India, was formed by merging three subsidiaries of Unilever in 1956. At present, Unilever Plc holds a 52.5% stake in the company. HUL's portfolio of products covers a wide spectrum including soaps, detergents, skin creams, shampoos, toothpastes, tea, coffee, packaged foods and branded atta.

Powerful brands and an enviable distribution network are HUL's primary strengths. The company operates through segments—soaps & detergents, personal products, beverages, foods, exports, and other operations.

Investment Theme

HUL is a play on consumption growth in India. The company has displayed its ability to effect price hikes and avoid impact of inflation in vegetable oils, which, combined with improved outlook for fabric wash and strong growth in processed foods and beverages, boosts our positive outlook on the stock. The recent moves by the company to dispose of its non-core assets including few properties give it a near term upside. We believe the price war in shampoos with rival P&G has weakened (just like in S&D). We like its revenue growth from a medium to long term perspective, however increase in royalty, steep hike in tax rate (up 200bps and 250bps YoY for FY14E and FY15E respectively) and slowdown in discretionary segments remains an overhang.

Key Risks

Further correction in palm oil prices may lead to gross margin expansion.

Also, upside risk arise from the company's continuous efforts through innovations to deal with the discretionary slowdown.

Financial Statements

Key Assumptions

Year to March	FY12	FY13E	FY14E	FY15E
Macro				
GDP(Y-o-Y %)	6.5	5.5	6.5	7.0
Inflation (Avg)	8.8	7.8	6.0	6.0
Repo rate (exit rate)	8.5	7.5	6.8	6.0
USD/INR (Avg)	47.9	54.5	54.0	52.0
Company				
Revenue growth (Y-o-Y %)				
Volume gr. (overall)	9.0	7.0	6.0	6.5
Pricing gr. (overall)	8.0	7.0	6.8	8.0
Growth in Soaps	9.2	14.5	14.0	14.0
Growth in Detergents	29.2	19.5	17.0	18.0
Growth in PP	19.7	15.0	15.5	16.5
Growth in beverages	11.5	10.0	7.0	8.0
Growth in packaged foods	15.4	14.0	14.5	15.5
EBITDA margin assumptions				
Oils, fats and resins as % of COGS	11.2	11.8	12.0	11.9
Chemicals and perfumes as % of COGS	29.1	29.7	29.7	30.1
Tea and Green leaf as % of COGS	7.4	7.3	6.8	6.5
Selling and distribution costs	15.2	15.4	15.9	16.2
Employee cost as % of sales	5.2	5.3	5.3	5.3
A&P as % of sales	11.7	12.4	12.5	12.5
EBITDA margin (%)	15.2	15.5	15.2	14.9
Financial assumptions				
Tax rate (%)	23.4	24.5	26.5	29.0
Capex (INR mn)	2,070	4,724	4,750	4,500
Debtor days	14	14	14	14
Inventory days	81	81	81	81
Payable days	145	145	145	145
Cash conversion cycle (days)	(50)	(50)	(50)	(50)
Depreciation as % of gross block	5.9	6.2	6.2	6.2
Yield on cash	6.0	12.0	12.3	11.9

Income statement

(INR mn)

Year to March	FY12	FY13E	FY14E	FY15E
Net revenue	229,877	261,959	295,602	338,342
Other Operating Income	4,486	5,608	6,168	6,847
Total operating income	234,363	267,567	301,771	345,189
Materials costs	125,017	139,658	156,369	178,538
Gross profit	109,347	127,909	145,402	166,651
Employee costs	12,009	13,806	15,722	17,950
Other Expenses	35,532	41,205	47,982	55,921
Advertisement & sales costs	26,970	32,376	36,816	42,458
EBITDA	34,836	40,522	44,882	50,323
Depreciation & Amortization	2,335	2,657	2,913	3,189
EBIT	32,500	37,865	41,969	47,133
Other income	2,596	5,182	6,628	7,818
Interest expenses	17	320	220	200
Profit before tax	35,080	42,727	48,377	54,751
Provision for tax	8,215	10,485	12,820	15,878
Net profit	26,865	32,242	35,557	38,873
Exceptional	1,137	4,697	-	-
Minority interest	(95)	(149)	(169)	(193)
Profit after minority interest	27,907	36,789	35,388	38,680
Diluted EPS (INR)	12.4	14.8	16.4	17.9
Dividend per share (INR)	7.5	9.9	9.5	10.4
Dividend payout (%)	58.1	58.1	58.1	58.1

Common size metrics

Year to March	FY12	FY13E	FY14E	FY15E
Materials costs	54.4	53.3	52.9	52.8
Employee expenses	5.2	5.3	5.3	5.3
Advertising & sales costs	11.7	12.4	12.5	12.5
Interest expenditure	0.0	0.1	0.1	0.1
EBITDA margins	15.2	15.5	15.2	14.9
Net profit margins	11.6	12.3	12.0	11.4

Growth ratios (%)

Year to March	FY12	FY13E	FY14E	FY15E
Revenues	17.0	14.0	12.8	14.5
EBITDA	28.5	16.3	10.8	12.1
Net profit	28.8	20.0	10.3	9.3
EPS	30.3	19.9	10.3	9.3

Balance sheet		(INR mn)			
As on 31st March	FY12	FY13E	FY14E	FY15E	
Equity capital	2,162	2,162	2,162	2,162	
Reserves & surplus	34,649	46,603	58,102	70,670	
Shareholders funds	36,811	48,765	60,263	72,831	
Minority interest (BS)	183	332	501	694	
Deferred tax liability	(2,099)	(2,099)	(2,099)	(2,099)	
Sources of funds	34,895	46,998	58,665	71,426	
Tangible assets	22,329	24,172	25,759	27,069	
Intangible assets	300	300	300	300	
CWIP (incl. intangible)	2,276	2,500	2,750	2,750	
Total net fixed assets	24,905	26,971	28,808	30,119	
Non current investments	703	703	703	703	
Current Investments	22,519	22,519	22,519	22,519	
Cash and equivalents	19,964	30,882	42,477	56,149	
Inventories	26,674	30,993	34,701	39,621	
Sundry debtors	8,567	10,409	11,575	13,240	
Loans and advances	8,269	8,269	8,269	8,269	
Other current assets	372	372	372	372	
Total current assets (ex cash)	43,883	50,043	54,917	61,502	
Current liabilities & provisions	77,079	84,120	90,759	99,566	
Net current assets (ex cash)	(33,196)	(34,077)	(35,842)	(38,064)	
Uses of funds	34,895	46,998	58,665	71,426	
Book value per share (INR)	16.1	21.7	27.1	33.0	

Free cash flow		(INR mn)			
Year to March	FY12	FY13E	FY14E	FY15E	
Net profit	27,907	36,789	35,388	38,680	
Add : Non cash charge	140	(1,570)	3,301	3,583	
Depreciation	2,335	2,657	2,913	3,189	
Others	(2,195)	(4,227)	389	393	
Gross cash flow	28,047	35,219	38,690	42,263	
Less: Changes in WC	(797)	(881)	(1,765)	(2,222)	
Operating cash flow	28,844	36,100	40,455	44,485	
Less: Capex	2,070	4,724	4,750	4,500	
Free cash flow	26,774	31,376	35,705	39,985	

Peer comparison valuation

Name	Market cap (USD mn)	Diluted PE (X)		EV/EBITDA (X)		ROAE (%)	
		FY13E	FY14E	FY13E	FY14E	FY13E	FY14E
Hindustan Unilever	19,323	32.4	29.4	24.3	21.7	75.0	64.9
Asian Paints	7,897	36.2	29.5	23.2	19.1	38.8	39.9
Colgate	3,764	36.7	31.9	27.5	23.2	117.1	116.7
Dabur	4,219	29.9	25.1	21.1	17.7	40.7	38.4
Emami	1,638	28.0	23.2	24.2	19.5	41.8	44.2
GlaxoSmithKline Consumer Healthcare	2,967	36.8	30.9	24.9	21.2	35.5	35.0
Godrej Consumer	4,470	33.7	27.8	23.4	19.4	21.5	22.5
ITC	42,496	30.0	25.7	19.5	16.6	36.8	38.6
Marico	2,695	34.9	29.1	22.6	18.6	30.2	28.5
Nestle Ltd	8,455	42.3	34.2	26.0	20.8	71.5	66.4
AVERAGE		33.2	28.0	22.9	19.2	53.9	52.6

Source: Edelweiss research

Cash flow metrics

Year to March	FY12	FY13E	FY14E	FY15E
Operating cash flow	28,844	36,100	40,455	44,485
Investing cash flow	(5,134)	(4,724)	(4,750)	(4,500)
Financing cash flow	(8,442)	(20,459)	(24,110)	(26,312)
Net cash flow	15,267	10,918	11,595	13,673
Capex	(2,070)	(4,724)	(4,750)	(4,500)
Dividends paid	(18,839)	(24,835)	(23,890)	(26,112)
Share issuance/(buyback)	2	-	-	-

Profitability & efficiency ratios

Year to March	FY12	FY13E	FY14E	FY15E
ROAE (%)	83.4	75.0	64.9	58.1
ROACE (%)	257.8	213.6	141.7	112.7
Inventory day	81	81	81	81
Debtors days	14	14	14	14
Payable days	145	145	145	145
Cash conversion cycle (days)	(50)	(50)	(50)	(50)
Current ratio	0.8	1.0	1.1	1.2

Operating ratios

Year to March	FY12	FY13E	FY14E	FY15E
Total asset turnover	7.6	6.4	5.6	5.2
Fixed asset turnover	9.2	10.1	10.6	11.5
Equity turnover	7.2	6.1	5.4	5.1

Valuation parameters

Year to March	FY12	FY13E	FY14E	FY15E
Diluted EPS (INR)	12.4	14.8	16.4	17.9
Y-o-Y growth (%)	30.3	19.9	10.3	9.3
CEPS (INR)	13.5	16.1	17.8	19.5
Diluted PE (x)	38.8	32.4	29.4	26.9
Price/BV (x)	29.8	22.1	17.7	14.6
EV/Sales (x)	4.3	3.8	3.3	2.8
EV/EBITDA (x)	28.6	24.3	21.7	19.1
Dividend yield (%)	1.6	2.1	2.0	2.2

Additional Data

Directors Data

Mr. Harish Manwani	Chairman	Mr. Nitin Paranjpe	Managing Director and Chief Executive Officer
Mr. Sridhar Ramamurthy	Executive Director, Finance & IT and Chief Financial Officer	Mr. Pradeep Banerjee	Executive Director, Supply Chain
Mr. A. Narayan	Independent Director	Mr. S. Ramadorai	Independent Director
Mr. R. A. Mashelkar	Independent Director	Mr. O. P. Bhatt	Independent Director

Auditors - M/s. Lovelock & Lewes

**as per last annual report*

Holding – Top10

	Perc. Holding		Perc. Holding
Unilever plc	36.76	Brooke bond group lt	4.94
Unilever overseas ho	4.05	Life insurance corp	3.88
Aberdeen	3.12	Unilever uk & cn hol	2.78
Brooke bond south in	2.44	Vanguard group inc	1.73
Brooke bond assam es	1.52	Oppenheimerfunds inc	1.29

**as per last available data*

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
No Data Available				

**in last one year*

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
24 May 2012	Life Insurance Corporation of India	Sell	44984788.00
30 Aug 2012	Mr. Pradeep Banerjee	Sell	15000.00

**in last one year*

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Asian Paints	BUY	SP	M	Colgate	HOLD	SP	M
Dabur	BUY	SO	M	Emami	BUY	SP	H
GlaxoSmithKline Consumer Healthcare	BUY	SP	M	Godrej Consumer	BUY	SO	H
Hindustan Unilever	REDUCE	SU	L	ITC	BUY	SO	L
Marico	BUY	SO	M	Nestle Ltd	HOLD	SP	L
United Spirits	BUY	SO	H				

ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return



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Coverage group(s) of stocks by primary analyst(s): Consumer Goods

Asian Paints, Colgate, Dabur, Godrej Consumer , Emami, Hindustan Unilever, ITC, Marico, Nestle Ltd, GlaxoSmithKline Consumer Healthcare, United Spirits

Recent Research

Date	Company	Title	Price (INR)	Recos
21-Jan-13	Asian Paints	Festivals add glitter, margins improve; <i>Result Update</i>	4,288	Buy
18-Jan-13	ITC	Cigarettes, FMCG on the roll; <i>Result Update</i>	285	Buy
12-Dec-12	Godrej Consumer Products	Ring in the new; <i>Visit Note</i>	716	Buy

Distribution of Ratings / Market Cap

Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	118	46	17	181
* - stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	117	57	7	

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

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