

Prices of crude-linked inputs appear to have de-coupled from crude prices

Prices of major crude-linked inputs for FMCG players (palm oil, LAB, and packaging material) appear to have de-coupled from crude prices in the last couple of months. Though crude prices have continued their slide, prices of these inputs have moved up by 20-40% from the panic bottoms. Palm oil prices have increased from MYR1,415/ton to current levels of MYR1,900/ton, a 35% upside. Similarly, HDPE prices have risen 22% from the bottom, while LAB prices have been flat in February and March (despite ~10% fall in crude prices). Our interactions with industry players suggest that some of these commodities are unlikely to test the recent bottoms.

Agri-based commodities remain a mixed bag

Agri-based inputs remain a mixed bag, as the prices of copra, safflower, coffee and barley are on a decline, while the prices of sugar, liquid milk and wheat continue to hold firm. We believe that the prices of sugar, wheat and milk would continue to rule firm. Sugar production has been low and minimum support price (MSP) of wheat has been increased by 8%. Copra and safflower prices are likely to be weak due to start of flush season. Barley malt prices have declined globally, but processed malt prices are expected to decline once new capacities go on-stream in the next few months. Agri-commodity inflation is likely to be significantly lower than the levels seen in the last couple of years.

Rupee depreciation to limit gains from lower cost of imported inputs

The rupee has depreciated ~33% from Rs39-40/US\$ in January 2008 to the current ~Rs52/US\$. This has neutralized the gains from decline in input prices to a certain extent. Users of commodities like palm oil, skimmed milk powder, solvents, LAB, HDPE, barley, coffee and cocoa will have limited gains from decline in input prices, as rupee depreciation will neutralize the impact, significantly. Rupee depreciation will limit gains from palm oil price reduction for HUL and GCPL. Nestle and Britannia will be adversely impacted due to rising sugar and wheat prices. Marico will gain from lower prices of copra and safflower oil.

COMPARATIVE VALUATION

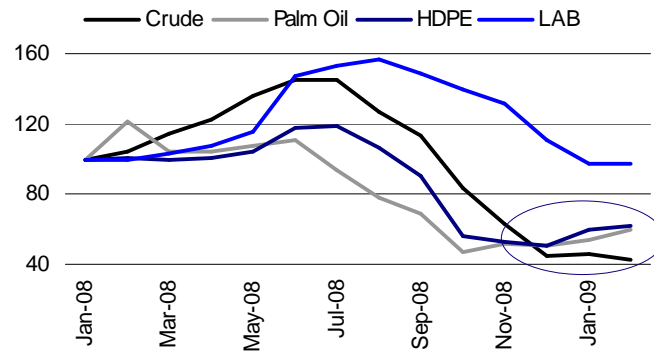
	CMP	RECO	TP	UPSIDE	EPS (RS)		P/E (X)		EV/EBITDA (X)		ROE (%)	
	(RS)		(RS)	(%)	FY09E	FY10E	FY09E	FY10E	FY09E	FY10E	FY09E	FY10E
Asian Paints	709	Neutral	794	12.0	39.1	46.7	18.1	15.2	11.8	9.5	31.5	31.3
Britannia Industries	1,244	Buy	1,426	14.6	91.3	118.8	13.6	10.5	9.3	6.8	24.0	25.7
Colgate	431	Buy	475	10.1	20.3	23.7	21.2	18.2	22.3	19.0	154.2	149.5
Dabur	90	Neutral	93	3.7	4.4	5.2	20.6	17.4	17.2	13.5	44.9	41.3
Glaxo Smithkline*	610	Buy	755	23.7	44.8	53.9	13.6	11.3	8.9	7.1	25.5	25.9
Godrej Consumer	123	Buy	149	20.9	6.2	8.3	19.8	14.9	15.3	11.3	27.5	33.5
Hind. Unilever	226	Neutral	246	8.9	11.3	11.2	19.9	20.2	17.3	17.1	128.1	100.3
ITC	162	Buy	204	25.9	8.7	10.2	18.6	15.9	11.7	10.1	23.9	24.3
Marico	61	Buy	64	5.4	3.0	3.6	20.3	17.1	13.3	11.0	41.0	35.3
Nestle*	1,471	Buy	1,793	21.9	56.4	71.7	26.1	20.5	16.8	13.1	119.3	118.2
Tata Tea	542	Neutral	666	22.9	50.9	66.6	10.6	8.1	3.9	3.0	8.1	10.0
United Spirits	602	Buy	712	18.3	33.7	47.5	17.9	12.7	10.1	8.4	12.7	15.1

* Companies are December ending. Read FY09 as CY08

Source: MOSL

CRUDE LINKED INPUTS SEEM TO HAVE DE-COUPLED

CRUDE



- Crude down ~75% from the peak, still declining
- Palm oil up ~37% from the bottom
- HDPE up ~48% from the bottom
- LAB flat during January to March 2009

RS V/S DOLLAR



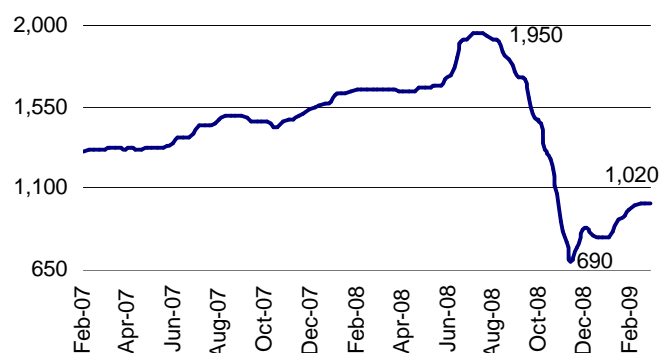
- Rupee declines ~33% from its peak of 39.27 in January 2009
- Rupee declines ~9% since de-coupling of crude based rawmaterials v/s crude oil prices

PALM OIL PRICES (MALAYSIAN RINGIT/MT) - 37% UP FROM THE BOTTOM



- End Usage: Toilet Soaps
- Major Users
 - HUL (6% of Total Sales)
 - Godrej Consumer (22% of Sales)
- YoY Price Decline: ~54%
- Price increase from bottom: ~37%

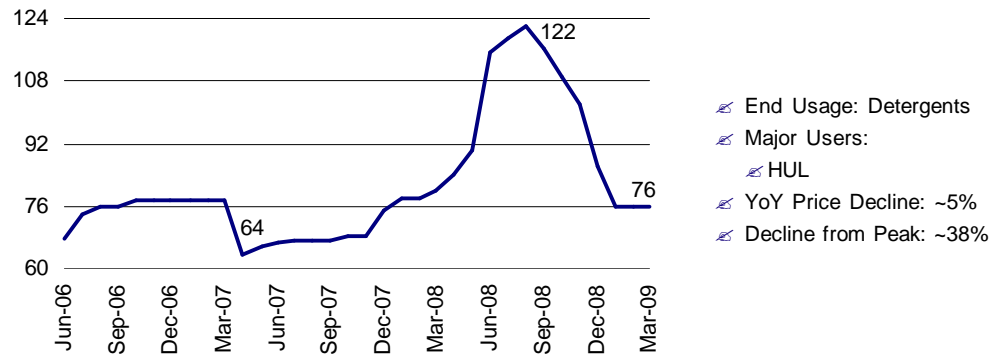
HDPE (PACKAGING MATERIAL, USD/MT) - NOSEDIVE



- End Usage: Packaging Mat.
- Major Users (% of Sales):
 - Britannia (~6%)
 - Dabur (~16%)
 - Colgate (~8%)
 - GSK Consumer (~10%)
 - Godrej Consumer (~10%)
 - HUL (~9%)
 - Marico (~8%)
- YoY Price Decline: ~38%
- Price increase from bottom: ~48%

Source: Company/Bloomberg/MOSL

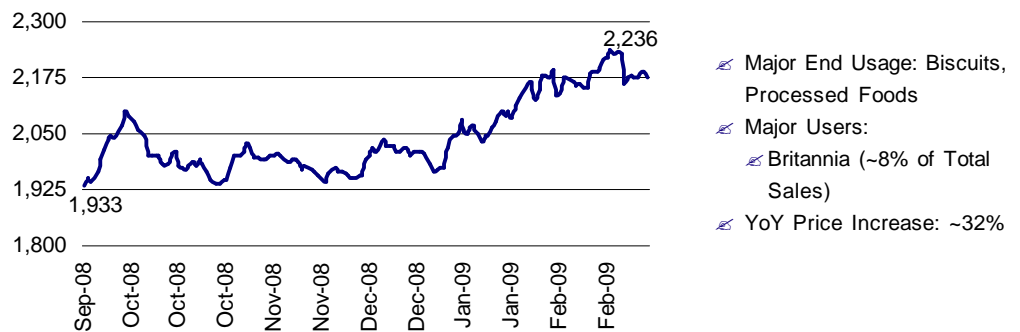
LAB PRICES (RS/KG) - STABILIZE POST 38% DECLINE FROM PEAK



Source: Company/Bloomberg/MOSL

AGRI BASED COMMODITIES REMAIN A MIXED BAG

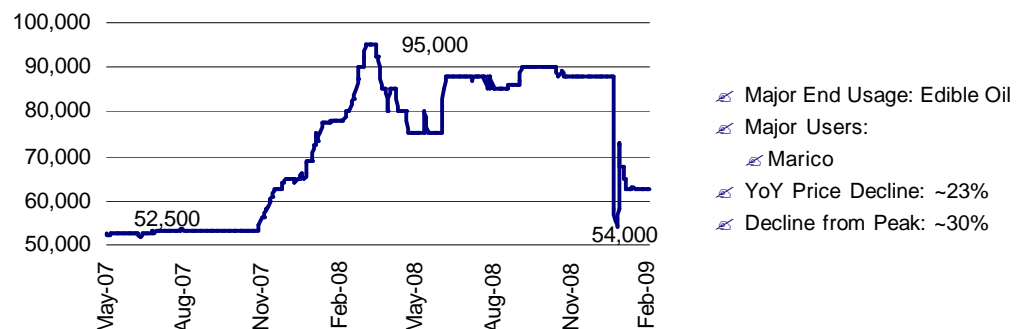
SUGAR PRICES (RS/QTL) - LOWER PRODUCTION RESULTS IN 32% INCREASE IN PRICES



COPRA PRICES (RS/QTL) - 24% DECLINE FROM PEAK, PRICES TO DECLINE FURTHER IN MARCH-09



SAFFLOWER OIL PRICES (INR/MT)



Source: Company/Bloomberg/MOSL



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