

27 October 2010

MF Global Quarterly Report

# Hindustan Unilever Ltd

| Margin pressure to continue

FMCG

HUVR IN: **NEUTRAL**

RS 299

HUL's Q2FY11 numbers are above our estimates. The key takeaways from the results and the conference call are:

- » **Volume growth higher than market growth rate:** HUL reported strong volume growth of 14% for the quarter, which was higher than the market growth rate, largely driven by lower product price and continued investments behind brands. Revenue growth of 10.7% YoY was higher than our estimates, but has lagged volume on account of lower product prices. Personal care portfolio grew by a robust 15% YoY and the Soaps and Detergents segment grew by 6% YoY. We believe that the volume growth will persist over the next two quarters till the company takes major price hikes to abate the pressure on margins.
- » **Gross margins continue to surprise:** The company has reported a 20bps QoQ improvement in gross margins in spite of the sharp growth in volumes and rise in input prices. HUL has taken some price hikes in the quarter, but we believe that they are unlikely to fully offset the rising input costs. The management has indicated that buying efficiencies and various cost-saving programmes have helped the company in improving gross margins. We believe that the input cost pressure will continue to persist in the forthcoming quarters.
- » **Estimates revision and rating:** We have revised our FY11E and FY12E estimates upward on account of higher volume growth. We have built for margin improvement in FY12E on account of price hikes in key categories. We value the company at 25x FY12E earnings at Rs 290, maintaining our price target. This presents a downside of 3% from the current levels. Hence, we maintain our recommendation at Neutral.

## TARGET RS 290 (-3%)

### STOCK RATING

| BUY   | NEUTRAL      | SELL   |
|-------|--------------|--------|
| > 15% | -15% TO +15% | < -15% |

### COMPANY DATA

|                          |           |
|--------------------------|-----------|
| O/S SHARES :             | 2182MN    |
| MARKET CAP (RS) :        | 652BN     |
| MARKET CAP (USD) :       | 14.7BN    |
| 52 - WK HI/LO (RS) :     | 320 / 218 |
| AVG. DAILY VOL. (3MTH) : | 2.4MN     |
| FACE VALUE (RS) :        | 1         |

### SHARE HOLDING PATTERN, %

|                               |      |
|-------------------------------|------|
| PROMOTERS :                   | 52.0 |
| FII / NRI :                   | 17.5 |
| FI / MF :                     | 12.9 |
| NON-PROMOTER CORP. HOLDINGS : | 2.6  |
| PUBLIC & OTHERS :             | 15.0 |

### PRICE PERFORMANCE, %

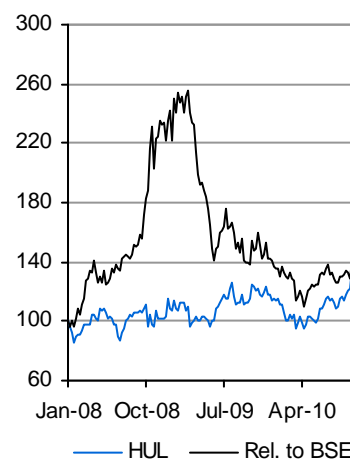
|            | 1MTH | 3MTH | 1YR   |
|------------|------|------|-------|
| ABS        | -5.0 | 14.3 | 7.6   |
| REL TO BSE | -5.9 | 2.1  | -13.2 |

### VALUATION SUMMARY

| Y/E MAR, RS MN         | CY2007  | CY2008  | FY2010  | FY2011E | FY2012E |
|------------------------|---------|---------|---------|---------|---------|
| TOTAL INCOME           | 139,397 | 208,291 | 178,734 | 197,146 | 214,557 |
| TOTAL INCOME GROWTH, % | 13.2    | 49.4    | -14.2   | 10.3    | 8.8     |
| CORE EBIDTA            | 21,430  | 32,458  | 28,981  | 28,618  | 33,447  |
| EBIDTA MARGINS, %      | 15.7    | 16.0    | 16.5    | 14.7    | 15.8    |
| NET PROFIT             | 17,431  | 25,008  | 21,027  | 21,783  | 25,353  |
| PAT MARGINS, %         | 12.5    | 12.0    | 11.8    | 11.0    | 11.8    |
| EPS, RS                | 7.9     | 11.4    | 9.6     | 10.0    | 11.6    |
| EPS GROWTH, %          | 13.1    | 44.4    | (15.4)  | 3.5     | 16.4    |
| PER, X                 | 37.9    | 26.2    | 31.0    | 29.9    | 25.7    |
| EV/EBIDTA, X           | 30.1    | 19.6    | 21.5    | 22.3    | 19.0    |
| EV/NET SALES, X        | 4.7     | 3.1     | 3.5     | 3.3     | 3.0     |
| PRICE/BOOK VALUE, X    | 45.8    | 31.8    | 25.2    | 24.7    | 22.2    |
| ROIC, %                | 417.7   | 397.1   | 482.7   | 382.3   | 211.0   |
| ROE, %                 | 83.7    | 142.9   | 90.5    | 83.3    | 90.8    |
| DIVIDEND YIELD, %      | 3.0     | 2.5     | 2.2     | 2.8     | 3.0     |

Source: Company, MF Global India Research Estimates

### PRICE VS. SENSEX



Source: Bloomberg, MF Global India Research

#### QUARTERLY RESULTS

| (RS MN)                             | Q2FY11 | Q1FY11 | QOQ, % | Q2FY10  | YOY, % |
|-------------------------------------|--------|--------|--------|---------|--------|
| NET SALES                           | 46,809 | 47,939 | -2.4   | 42,281  | 10.7   |
| GROWTH, %                           | 10.7   | 7.1    |        | 5.0     |        |
| TOTAL INCOME                        | 47,647 | 48,762 | -2.3   | 42,692  | 11.6   |
| OPERATING EXPENSES                  | 41,178 | 41,953 | -1.8   | 36,173  | 13.8   |
| EBITDA                              | 6,469  | 6,809  | -5.0   | 6,520   | -0.8   |
| MARGIN, %                           | 13.8   | 14.2   |        | 15.4    |        |
| DEPRECIATION                        | 554    | 535    | 3.5    | 462     | 19.7   |
| EBIT                                | 5,915  | 6,274  | -5.7   | 6,057   | -2.3   |
| MARGIN, %                           | 12.6   | 13.1   |        | 14.3    |        |
| INTEREST PAID                       | 1      | 1      | -12.5  | 15      | -95.3  |
| OTHER NON-OPERATING INCOME          | 768    | 421    | 82.3   | 473     | 62.5   |
| PRE-TAX PROFIT                      | 6,683  | 6,695  | -0.2   | 6,515   | 2.6    |
| TAX PROVIDED                        | 1,426  | 1,548  | -7.9   | 878     | 62.4   |
| MINORITY INTEREST                   | 0      | 0      |        | 0       |        |
| MF NET PROFIT                       | 5,257  | 5,147  | 2.1    | 5,637   | -6.7   |
| REPORTED PAT                        | 5,661  | 5,332  | 6.2    | 4,285   | 32.1   |
| GROWTH, %                           | -6.7   | -4.1   |        | 29.3    |        |
| MARGIN, %                           | 12.1   | 11.1   |        | 10.1    |        |
| EXTRAORDINARY ITEMS: GAINS/(LOSSES) | 404    | 185    |        | (1,352) |        |
| REPORTED FULLY DILLUTED EPS, RS     | 2.6    | 2.4    | 6.6    | 2.0     | 32.7   |

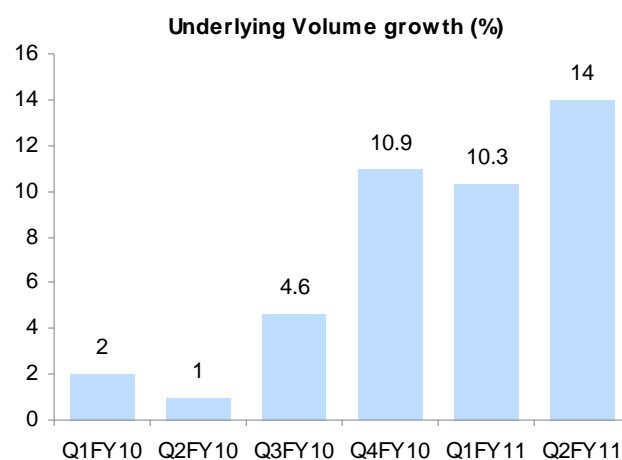
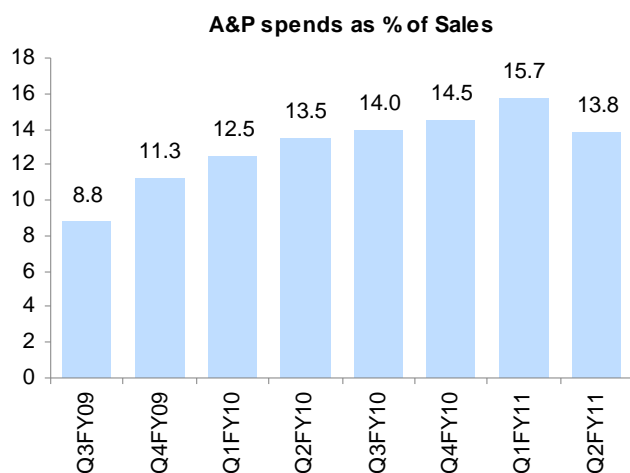
Source: Company, MF Global India Research

#### ESTIMATES REVISION TABLE

| (RS MN)            | EARLIER ESTIMATES |         | REVISED ESTIMATES |         | UPGRADE/(DOWNGRADE) (%) |       |
|--------------------|-------------------|---------|-------------------|---------|-------------------------|-------|
|                    | FY11E             | FY12E   | FY11E             | FY12E   | FY11E                   | FY12E |
| NET SALES          | 191,033           | 205,689 | 194,484           | 211,628 | 1.8                     | 2.9   |
| EBITDA             | 27,062            | 31,740  | 28,618            | 33,447  | 5.7                     | 5.4   |
| EBITDA MARGIN (%)  | 14.2              | 15.4    | 14.7              | 15.8    | 55                      | 37    |
| PBT                | 26,179            | 30,504  | 27,777            | 32,299  | 6.1                     | 5.9   |
| ADJ PAT            | 20,563            | 24,014  | 21,783            | 25,353  | 5.9                     | 5.6   |
| ADJ PAT MARGIN (%) | 10.8              | 11.7    | 11.2              | 12.0    | 44                      | 31    |
| ADJ EPS (RS)       | 9.4               | 11.0    | 10.0              | 11.6    | 6.2                     | 5.6   |

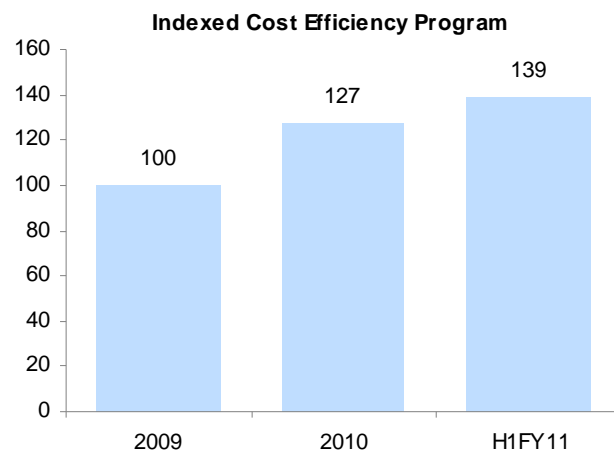
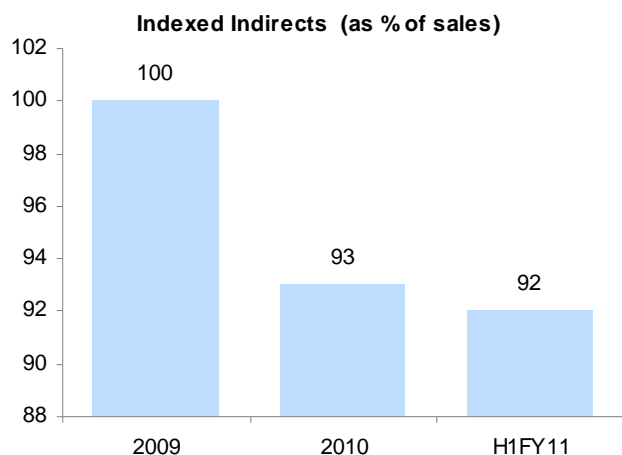
Source: Company, MF Global India Research Estimates

## AD SPENDS AND VOLUME GROWTH



Source: Company, MF Global India Research

## COST CONTROL EFFICIENCY



Source: Company, MF Global India Research

#### QUARTERLY SEGMENT PERFORMANCE

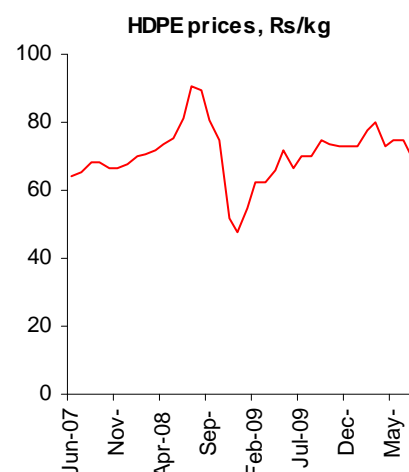
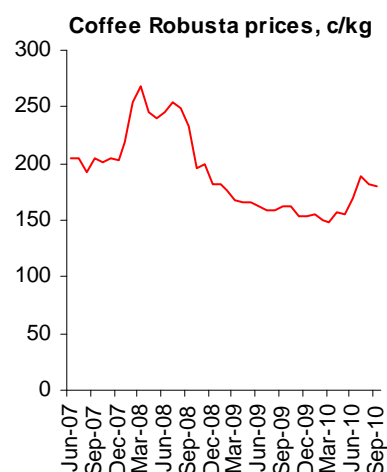
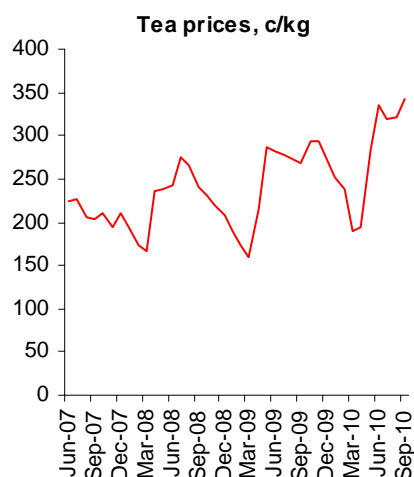
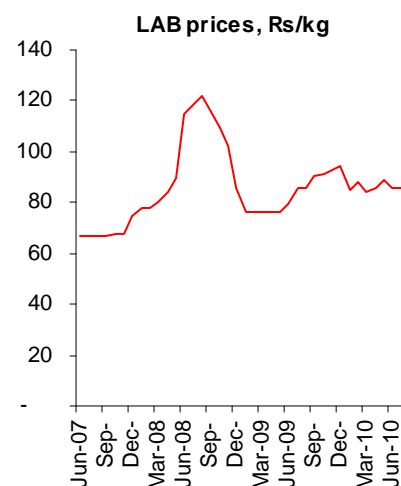
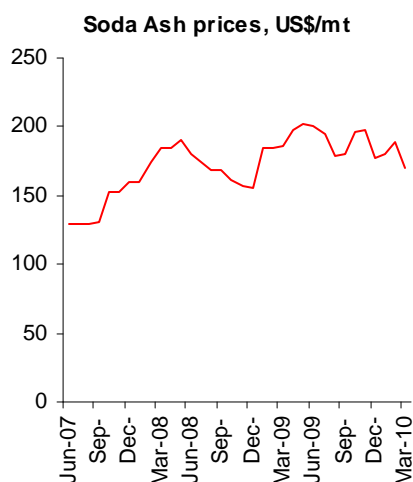
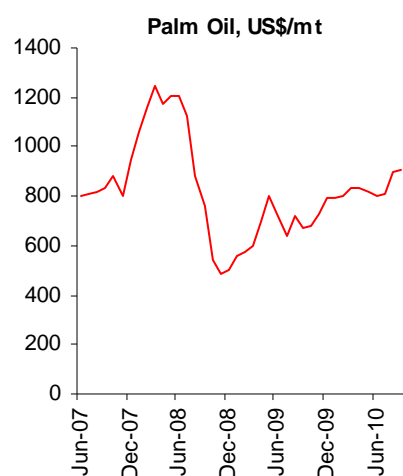
| RS MN              | Q3FY09       | Q4FY09       | Q1FY10       | Q2FY10       | Q3FY10       | Q4FY10       | Q1FY11       | Q2FY11       |
|--------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| SOAPS & DETREGENTS | 21234        | 20122        | 22115        | 20037        | 20719        | 19785        | 22645        | 21293.8      |
| QOQ GROWTH %       | 6.9          | -5.2         | 9.9          | -9.4         | 3.4          | -4.5         | 14.5         | -6.0         |
| YOY GROWTH %       | 25.7         | 15.8         | 9.5          | 0.9          | -2.4         | -1.7         | 2.4          | 6.3          |
| PERSONAL PRODUCTS  | 11923        | 10386        | 12255        | 11902        | 13770        | 12552        | 13655        | 13648.5      |
| QOQ GROWTH %       | 13.6         | -12.9        | 18.0         | -2.9         | 15.7         | -8.8         | 8.8          | 0.0          |
| YOY GROWTH %       | 12.0         | 1.9          | 14.7         | 13.4         | 15.5         | 20.9         | 11.4         | 14.7         |
| BEVERAGES          | 5106         | 4893         | 4996         | 5216         | 5511         | 5702         | 5378         | 5700         |
| QOQ GROWTH %       | 15.5         | -4.2         | 2.1          | 4.4          | 5.7          | 3.5          | -5.7         | 6.0          |
| YOY GROWTH %       | 25.0         | 13.5         | 18.6         | 18.0         | 7.9          | 16.5         | 7.7          | 9.3          |
| PROCESSED FOODS    | 1715         | 1634         | 1721         | 1739         | 1872         | 1976         | 2111         | 2194.9       |
| QOQ GROWTH %       | -1.4         | -4.7         | 5.3          | 1.1          | 7.6          | 5.5          | 6.9          | 4.0          |
| YOY GROWTH %       | 18.8         | 7.5          | 14.7         | 0.0          | 9.2          | 20.9         | 22.7         | 26.2         |
| ICE CREAM          | 343          | 453          | 886          | 504          | 378          | 553          | 1046         | 549.1        |
| QOQ GROWTH %       | -26.5        | 32.1         | 95.6         | -43.2        | -25.0        | 46.5         | 89.2         | -47.5        |
| YOY GROWTH %       | 17.5         | 22.4         | 23.0         | 8.0          | 10.2         | 22.1         | 18.1         | 9.0          |
| EXPORTS            | 2668         | 2205         | 2575         | 2270         | 2653         | 2555         | 2648         | 2647         |
| QOQ GROWTH %       | -9.9         | -17.4        | 16.8         | -11.8        | 16.9         | -3.7         | 3.6          | 0.0          |
| YOY GROWTH %       | -22.4        | -44.7        | -34.6        | -23.3        | -0.6         | 15.9         | 2.8          | 16.6         |
| OTHERS             | 739          | 675          | 794          | 1071         | 958          | 644          | 1126         | 1527.1       |
| <b>TOTAL</b>       | <b>43728</b> | <b>40367</b> | <b>45342</b> | <b>42738</b> | <b>45861</b> | <b>43767</b> | <b>48609</b> | <b>47560</b> |

| CONTRIBUTION (%)   | Q3FY09 | Q4FY09 | Q1FY10 | Q2FY10 | Q3FY10 | Q4FY10 | Q1FY11 | Q2FY11 |
|--------------------|--------|--------|--------|--------|--------|--------|--------|--------|
| SOAPS & DETREGENTS | 48.6   | 49.8   | 48.8   | 46.9   | 45.2   | 45.2   | 46.6   | 44.8   |
| PERSONAL PRODUCTS  | 27.3   | 25.7   | 27.0   | 27.8   | 30.0   | 28.7   | 28.1   | 28.7   |
| BEVERAGES          | 11.7   | 12.1   | 11.0   | 12.2   | 12.0   | 13.0   | 11.1   | 12.0   |
| PROCESSED FOODS    | 3.9    | 4.0    | 3.8    | 4.1    | 4.1    | 4.5    | 4.3    | 4.6    |
| ICE CREAM          | 0.8    | 1.1    | 2.0    | 1.2    | 0.8    | 1.3    | 2.2    | 1.2    |
| EXPORTS            | 6.1    | 5.5    | 5.7    | 5.3    | 5.8    | 5.8    | 5.4    | 5.6    |
| OTHERS             | 1.7    | 1.7    | 1.8    | 2.5    | 2.1    | 1.5    | 2.3    | 3.2    |

| SEGMENT RESULTS, RS MN | Q3FY09  | Q4FY09 | Q1FY10 | Q2FY10 | Q3FY10 | Q4FY10 | Q1FY11 | Q2FY11 |
|------------------------|---------|--------|--------|--------|--------|--------|--------|--------|
| SOAPS & DETREGENTS     | 3501    | 3335.3 | 3814.7 | 2726.2 | 2784.5 | 2527.3 | 2487.5 | 2501   |
| SEGMENT MARGINS %      | 16.5    | 16.6   | 17.2   | 13.6   | 13.4   | 12.8   | 11.0   | 11.7   |
| YOY CHANGE (IN BPS)    | -76.0   | 319.9  | 254.3  | 9.0    | -304.8 | -380.2 | -626.4 | -186.1 |
| PERSONAL PRODUCTS      | 3914.1  | 2389.4 | 2698.6 | 3133.7 | 4399.2 | 2733.7 | 3387.9 | 3139.8 |
| SEGMENT MARGINS %      | 32.8    | 23.0   | 22.0   | 26.3   | 31.9   | 21.8   | 24.8   | 23.0   |
| YOY CHANGE (IN BPS)    | -55.1   | -169.9 | -581.7 | 198.7  | -87.9  | -122.7 | 279.0  | -332.5 |
| BEVERAGES              | 651.2   | 655.1  | 703.3  | 887.3  | 817.3  | 789.6  | 695.3  | 875.7  |
| SEGMENT MARGINS %      | 12.8    | 13.4   | 14.1   | 17.0   | 14.8   | 13.8   | 12.9   | 15.4   |
| YOY CHANGE (IN BPS)    | -265.8  | 183.3  | -51.2  | 286.6  | 207.7  | 46.0   | -115.0 | -164.9 |
| PROCESSED FOODS        | -39     | -44.7  | -12.8  | -9.3   | -12.5  | 79     | 105.5  | 100.3  |
| SEGMENT MARGINS %      | -2.3    | -2.7   | -0.7   | -0.5   | -0.7   | 4.0    | 5.0    | 4.6    |
| YOY CHANGE (IN BPS)    | -931.0  | -387.4 | -326.4 | -203.6 | 160.7  | 673.4  | 574.1  | 510.4  |
| ICE CREAM              | -28.4   | -18.6  | 154.8  | 25.2   | -37.4  | -15.7  | 153.2  | 54.8   |
| SEGMENT MARGINS %      | -8.3    | -4.1   | 17.5   | 5.0    | -9.9   | -2.8   | 14.6   | 10.0   |
| YOY CHANGE (IN BPS)    | -1223.0 | 373.4  | -156.8 | 45.6   | -162.0 | 126.9  | -283.3 | 497.6  |

Source: Company

## RAW MATERIALS PRICE TREND



Source: World Bank, CRISIL, Company, MF Global India Research

## FINANCIALS

### INCOME STATEMENT

| Y/E MAR, RS MN                      | CY2007   | CY2008   | FY2010   | FY2011E  | FY2012E  |
|-------------------------------------|----------|----------|----------|----------|----------|
| NET SALES                           | 136,754  | 202,393  | 175,238  | 194,484  | 211,628  |
| GROWTH, %                           | 13.0     | 48.0     | -13.4    | 11.0     | 8.8      |
| OTHER OPERATING INCOME              | 2,643    | 5,897    | 3,496    | 2,663    | 2,929    |
| TOTAL INCOME                        | 139,397  | 208,291  | 178,734  | 197,146  | 214,557  |
| OPERATING EXPENSES                  | -117,968 | -175,833 | -149,754 | -168,528 | -181,110 |
| EBITDA                              | 21,430   | 32,458   | 28,981   | 28,618   | 33,447   |
| GROWTH, %                           | 15.5     | 51.5     | -10.7    | -1.3     | 16.9     |
| MARGIN, %                           | 15.7     | 16.0     | 16.5     | 14.7     | 15.8     |
| DEPRECIATION                        | -1,384   | -1,953   | -1,840   | -2,090   | -2,340   |
| EBIT                                | 20,046   | 30,505   | 27,141   | 26,528   | 31,106   |
| GROWTH, %                           | 15.5     | 51.5     | -10.7    | -1.3     | 16.9     |
| MARGIN, %                           | 14.7     | 15.1     | 15.5     | 13.6     | 14.7     |
| INTEREST RECEIVED/(PAID)            | -255     | -253     | -70      | 1,054    | 1,192    |
| OTHER INCOME                        | 1,672    | 0        | 0        | 0        | 0        |
| PRE-TAX PROFIT                      | 21,463   | 30,252   | 27,071   | 27,777   | 32,299   |
| TAX PROVIDED                        | -4,032   | -5,244   | -6,044   | -5,838   | -6,946   |
| PROFIT AFTER TAX                    | 17,431   | 25,008   | 21,027   | 21,939   | 25,353   |
| MF NET PROFIT                       | 17,431   | 25,008   | 21,027   | 21,783   | 25,353   |
| GROWTH, %                           | 13.2     | 43.5     | -15.9    | 3.6      | 16.4     |
| EXTRAORDINARY ITEMS: GAINS/(LOSSES) | 1823     | -43      | 441      | 195      | 0        |
| UNADJ. SHARES (M)                   | 2,207    | 2,177    | 2,182    | 2,182    | 2,182    |
| WTD AVG SHARES (M)                  | 2,207    | 2,177    | 2,182    | 2,182    | 2,182    |

### CASH FLOW

| Y/E MAR, RS MN                      | CY2007  | CY2008  | FY2010  | FY2011E | FY2012E |
|-------------------------------------|---------|---------|---------|---------|---------|
| PRE-TAX PROFIT                      | 21,463  | 30,252  | 27,071  | 27,777  | 32,299  |
| DEPRECIATION                        | 1,384   | 1,953   | 1,840   | 2,090   | 2,340   |
| CHG IN WORKING CAPITAL              | 3,092   | -2,593  | 14,058  | -11,075 | 579     |
| TOTAL TAX PAID                      | -4,265  | -6,006  | -5,984  | -4,378  | -6,669  |
| OTHER OPERATING ACTIVITIES          | 1,580   | 821     | -1,610  | 0       | 0       |
| CASH FLOW FROM OPERATING ACTIVITIES | 23,254  | 24,426  | 35,375  | 14,414  | 28,549  |
| CAPITAL EXPENDITURE                 | -3,355  | -5,660  | -5,412  | -4,000  | -3,000  |
| CHG IN INVESTMENTS                  | 597     | -23     | 99      | -9,413  | 0       |
| CHG IN MARKETABLE SECURITIES        | 9,135   | 11,105  | -9,413  | 9,413   | 0       |
| OTHER INVESTING ACTIVITIES          | 0       | 0       | 0       | 0       | 0       |
| CASH FLOW FROM INVESTING ACTIVITIES | 6,376   | 5,422   | -14,727 | -4,000  | -3,000  |
| FREE CASH FLOW                      | 29,631  | 29,848  | 20,648  | 10,414  | 25,549  |
| EQUITY RAISED/(REPAID)              | -6,781  | 2,881   | -2,803  | 0       | 0       |
| DEBT RAISED/(REPAID)                | 159     | 3,334   | -4,219  | 0       | 0       |
| DIVIDEND (INCL. TAX)                | -23,412 | -16,936 | -17,643 | -18,206 | -21,762 |
| OTHER FINANCING ACTIVITIES          | 0       | 0       | 0       | 0       | 0       |
| CASH FLOW FROM FINANCING ACTIVITIES | -30,034 | -10,720 | -24,666 | -18,206 | -21,762 |
| NET CHG IN CASH                     | -403    | 19,128  | -4,017  | -7,792  | 3,787   |

## BALANCE SHEET

| AS AT 31ST MAR, RS MN                 | CY2007        | CY2008        | FY2010        | FY2011E       | FY2012E       |
|---------------------------------------|---------------|---------------|---------------|---------------|---------------|
| CASH & BANK                           | 2,009         | 17,773        | 18,922        | 10,934        | 14,721        |
| MARKETABLE SECURITIES AT COST         | 13,343        | 2,238         | 11,651        | 2,238         | 2,238         |
| DEBTORS                               | 4,434         | 5,369         | 6,784         | 7,736         | 8,463         |
| INVENTORY                             | 19,535        | 25,289        | 21,799        | 23,558        | 25,021        |
| LOANS & ADVANCES                      | 6,672         | 7,421         | 6,006         | 6,638         | 6,665         |
| OTHER CURRENT ASSETS                  | 124           | 157           | 166           | 175           | 183           |
| TOTAL CURRENT ASSETS                  | 46,116        | 58,247        | 65,329        | 51,280        | 57,291        |
| INVESTMENTS                           | 1,065         | 1,088         | 990           | 10,403        | 10,403        |
| GROSS FIXED ASSETS                    | 26,691        | 28,817        | 35,820        | 39,820        | 42,820        |
| LESS: DEPRECIATION                    | 11,466        | 12,750        | 14,199        | 16,289        | 18,629        |
| ADD: CAPITAL WIP                      | 1,856         | 4,721         | 2,740         | 2,740         | 2,740         |
| NET FIXED ASSETS                      | 17,081        | 20,789        | 24,361        | 26,270        | 26,930        |
| OTHER NON-CURRENT ASSETS              | 2,124         | 2,548         | 2,488         | 2,488         | 2,488         |
| <b>TOTAL ASSETS</b>                   | <b>66,386</b> | <b>82,673</b> | <b>93,167</b> | <b>90,441</b> | <b>97,112</b> |
| CURRENT LIABILITIES                   | 28,785        | 33,050        | 43,737        | 37,621        | 41,214        |
| PROVISIONS                            | 12,105        | 13,510        | 15,875        | 20,300        | 16,850        |
| TOTAL CURRENT LIABILITIES             | 51,110        | 57,838        | 67,332        | 64,003        | 67,705        |
| NON-CURRENT LIABILITIES               | 885           | 4,219         | 0             | 0             | 0             |
| <b>TOTAL LIABILITIES</b>              | <b>51,995</b> | <b>62,058</b> | <b>67,332</b> | <b>64,003</b> | <b>67,705</b> |
| PAID-UP CAPITAL                       | 2,177         | 2,180         | 2,182         | 2,182         | 2,182         |
| RESERVES & SURPLUS                    | 12,215        | 18,436        | 23,654        | 24,257        | 27,226        |
| SHAREHOLDERS' EQUITY                  | 14,392        | 20,616        | 25,835        | 26,439        | 29,407        |
| <b>TOTAL EQUITY &amp; LIABILITIES</b> | <b>66,387</b> | <b>82,673</b> | <b>93,167</b> | <b>90,441</b> | <b>97,112</b> |

## PER-SHARE DATA

|                      | CY2007 | CY2008 | FY2010 | FY2011E | FY2012E |
|----------------------|--------|--------|--------|---------|---------|
| MF EPS (INR)         | 7.9    | 11.4   | 9.6    | 10.0    | 11.6    |
| GROWTH, %            | 13.1   | 44.4   | -15.4  | 3.5     | 16.4    |
| BOOK NAV/SHARE (INR) | 6.5    | 9.4    | 11.9   | 12.1    | 13.5    |
| FDEPS (INR)          | 7.9    | 11.5   | 9.6    | 10.0    | 11.6    |
| CEPS (INR)           | 8.5    | 12.3   | 10.5   | 10.9    | 12.7    |
| CFPS (INR)           | 9.1    | 10.8   | 17.0   | 6.6     | 13.1    |
| DPS (INR)            | 9.0    | 7.5    | 6.5    | 8.5     | 9.0     |

## FINANCIAL STRUCTURE

|                            | CY2007 | CY2008 | FY2010 | FY2011E | FY2012E |
|----------------------------|--------|--------|--------|---------|---------|
| TOTAL DEBT/EQUITY (%)      | 6.2    | 20.5   | 0.0    | 0.0     | 0.0     |
| NET DEBT (CASH)/EQUITY (%) | -7.8   | -65.7  | -73.2  | -41.4   | -50.1   |

**PROFITABILITY, PRODUCTIVITY, LIQUIDITY AND VALUATION RATIOS**

|                                | CY2007 | CY2008 | FY2010 | FY2011E | FY2012E |
|--------------------------------|--------|--------|--------|---------|---------|
| RETURN ON ASSETS (%)           | 25.2   | 33.8   | 24.0   | 23.2    | 26.2    |
| RETURN ON EQUITY (%)           | 83.7   | 142.9  | 90.5   | 83.3    | 90.8    |
| RETURN ON INVESTED CAPITAL (%) | 417.7  | 397.1  | 482.7  | 382.3   | 211.0   |
| ROIC/COST OF CAPITAL (X)       | 36.3   | 35.0   | 45.5   | 36.1    | 19.9    |
| ROIC - COST OF CAPITAL (%)     | 406.2  | 385.8  | 472.1  | 371.7   | 200.4   |
| RETURN ON CAPITAL EMPLOYED (%) | 81.4   | 125.5  | 83.2   | 81.4    | 88.1    |
| COST OF CAPITAL (%)            | 11.5   | 11.3   | 10.6   | 10.6    | 10.6    |
| ROCE - COST OF CAPITAL (%)     | 69.9   | 114.2  | 72.6   | 70.8    | 77.5    |
| ASSET TURNOVER (X)             | 32.8   | 30.0   | 37.6   | 32.9    | 17.0    |
| SALES/TOTAL ASSETS (X)         | 2.0    | 2.7    | 2.0    | 2.1     | 2.3     |
| SALES/NET FA (X)               | 8.5    | 10.7   | 7.8    | 7.7     | 8.0     |
| WORKING CAPITAL/SALES (X)      | -0.1   | -0.1   | -0.2   | -0.1    | -0.1    |
| FIXED CAPITAL/SALES (X)        | 0.2    | 0.1    | 0.2    | 0.2     | 0.2     |
| RECEIVABLE DAYS                | 11.8   | 9.7    | 14.1   | 14.5    | 14.6    |
| INVENTORY DAYS                 | 52.1   | 45.6   | 45.4   | 44.2    | 43.2    |
| PAYABLE DAYS                   | 89.1   | 68.6   | 106.6  | 81.5    | 83.1    |
| CURRENT RATIO (X)              | 0.9    | 1.0    | 1.0    | 0.8     | 0.8     |
| QUICK RATIO (X)                | 0.5    | 0.6    | 0.6    | 0.4     | 0.5     |
| INTEREST COVER (X)             | 78.6   | 120.5  | 388.8  | N/A     | N/A     |
| DIVIDEND COVER (X)             | 0.9    | 1.5    | 1.5    | 1.2     | 1.3     |
| PER (X)                        | 37.9   | 26.2   | 31.0   | 29.9    | 25.7    |
| PEG (X) - Y-O-Y GROWTH         | 2.9    | 0.6    | -2.0   | 8.6     | 1.6     |
| PRICE/BOOK (X)                 | 45.8   | 31.8   | 25.2   | 24.7    | 22.2    |
| YIELD (%)                      | 3.0    | 2.5    | 2.2    | 2.8     | 3.0     |
| EV/NET SALES (X)               | 4.7    | 3.1    | 3.5    | 3.3     | 3.0     |
| EV/EBITDA (X)                  | 30.1   | 19.6   | 21.5   | 22.3    | 19.0    |
| EV/EBIT (X)                    | 30.1   | 19.6   | 21.5   | 22.3    | 19.0    |
| EV/NOPLAT (X)                  | 37.1   | 23.7   | 27.6   | 28.3    | 24.2    |
| EV/CE                          | 42.2   | 25.6   | 24.1   | 24.2    | 21.6    |
| EV/IC (X)                      | 154.9  | 94.0   | 133.3  | 108.1   | 51.1    |

Source: Company, MF Global India Research Estimates



**RECOMMENDATION HISTORY**

| RECOMMENDATION | TARGET, RS | CMP, RS | DATE            |
|----------------|------------|---------|-----------------|
| NEUTRAL        | 290        | 299     | 27-OCTOBER-2010 |
| NEUTRAL        | 275        | 252     | 29-JULY-2010    |
| BUY            | 275        | 237     | 1-FEBRUARY-2010 |
| NEUTRAL        | 288        | 268     | 30-JULY 2009    |
| UNDERPERFORMER | 235        | 230     | 22-MAY 2009     |

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#### Rating Rationale

BUY and SELL recommendations are used to draw attention to stocks, which we believe are under-priced or over-priced by circa 15%, that is, price differential of +/- 15% between our price target and the market price. Stocks which do not achieve this price differential are NEUTRAL. Price targets are established in the context of a flat market.

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