Companies covered

Asian Paints	**UPF**
CMP: Rs 4,430	TP: Rs 4,200
Colgate-Palmolive	**UPF**
CMP: Rs 1,436	TP: Rs 1,300
Dabur	**OPF**
CMP: Rs 128	TP: Rs 145
Emami	**OPF**
CMP: Rs 602	TP: Rs 650
GCPL	**BUY**
CMP: Rs 731	TP: Rs 840
GSK Consumer	**UPF**
CMP: Rs 3,760	TP: Rs 3,550
HUL	**OPF**
CMP: Rs 523	TP: Rs 550
ITC	**BUY**
CMP: Rs 290	TP: Rs 341
Marico	**OPF**
CMP: Rs 222	TP: Rs 240
Nestle	**UPF**
CMP: Rs 4,913	TP: Rs 4,650

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No room for error

We are positive on the long term growth prospects of the Indian consumer sector. However, we are getting cautious around current demand growth and relatively rich valuations, especially for FMCG stocks. In this report, we have focussed on a bottom up approach for stock selection and recommend investors to go Underweight on the sector.

Future looks bright

Over the longer term, the Indian consumer sector will ride several external/internal opportunities: favourable demographics, burgeoning middle class, increase in per capita income, urbanization, lower penetration levels, low per capita consumption and increase in distribution reach. Also, the land and gold driven wealth effect in rural India will keep rural demand unscathed.

Discretionary consumption : Feeling the heat

As economic growth slows down and inflation remains at elevated levels, consumers are curtailing discretionary spends as indicated by cutting down on premium processed foods and restaurant spends *(Nestle: negative volume growth in 3QY12; Jubilant SSG on downward trend: 37% in 1QFY12 to 19.8% in 2QFY13)*, cut in purchase of jewellery *(Titan: 11% volume decline in 2QFY13)* and watches *(Titan: 4% volume growth in 2QFY13 as against average of 10%+)*, postponement in painting house *(volume growth of ~6% for Asian Paints; ~2% for Berger Paints in 2QFY13 vis-à-vis normalized growth of 1.8-2.0x GDP)*, etc. This has resulted in increased promotions and milder price hikes.

Moderation in staples; 3QFY13 holds the key

Barring ITC, most consumer companies witnessed moderation in volume growth in 2QFY13. The slowdown was not only experienced by companies that derive most of their revenues from discretionary categories (Asian Paints, Nestle, Britannia, Jubilant Foodworks, TTK Prestige) but also by companies with high contribution from staples (HUL, GCPL, Marico, Emami, Dabur).

With the FY13 festive season spilling into 3QFY13, we think the quarter assumes greater significance than normal.

Priced to perfection; no room for error

A steady drumbeat of negative news (sustained inflation, GDP slowdown, weak rupee, reduction in disposable income and consumers' perception about their economic situation turning negative) threatens FMCG valuations. The FMCG pack is trading at a 20% premium to its 5 yr mean valuation (100% premium to NIFTY) and therefore looks vulnerable to us in near term. **Also, with imminent rate cuts, investors might switch to rate cyclicals from defensives. Hence, our UW stance on the sector**.

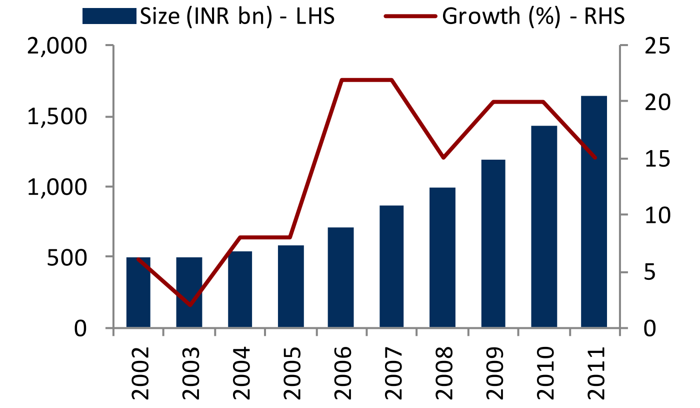
Still, not all companies will be equally impacted. We like companies with diversified product portfolios, focus on innovations, and strong distribution reach.

Recommend BUY on ITC and Godrej Consumer, OPF on Emami, Dabur, Marico and HUL and UPF on Asian Paints, Nestle, Colgate and GSK Consumer.

Future perfect

- A study conducted by Boston Consulting Group (BCG) and Confederation of Indian Industry (CII) titled 'The Tiger Roars', has indicated that the Indian FMCG market size is in excess of USD 33.4 billion (~17% CAGR in the last 5 years).
- It is poised to grow 3.6 times between 2010 and 2020, faster than most other emerging markets.
- The consumer sector story in India remains intact and is expected to continue on a secular growth trend driven by favourable demographics, increase in per capita consumption levels and increase in penetration. The demographic factors combined with rising per capita disposable incomes are expected to fuel consumption growth in India for a long period of time.

Buoyant growth

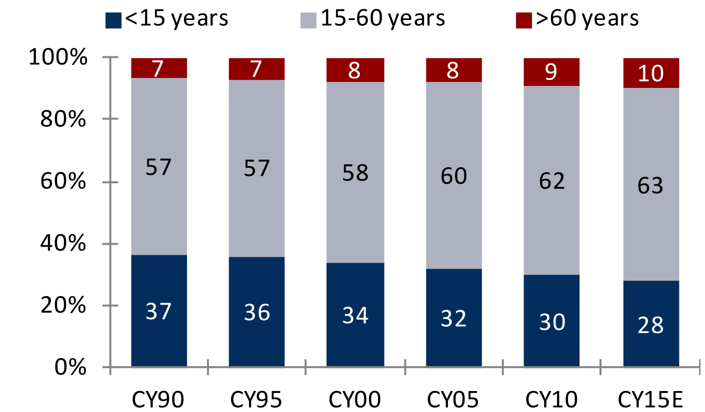


Source : Industry, HDFC Sec Inst Research

Favourable demographics

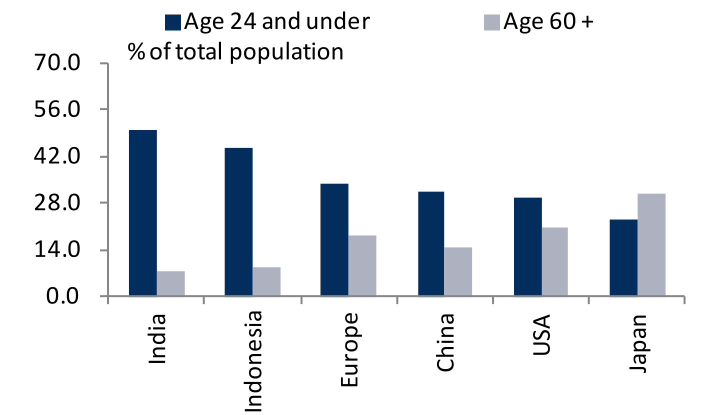
- More than half of India's population is younger than the age of 25 years and the entry of this group into the working population over the next few decades is expected to spur India's economic growth.

Demographic dividend



Source : McKinsey, HDFC Sec Inst Research

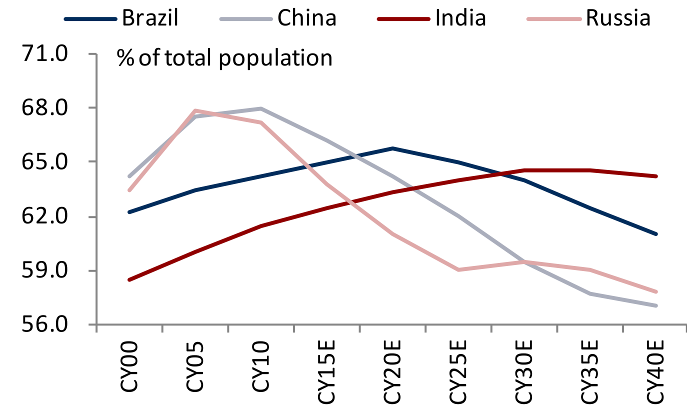
Third largest economy after US and China- By 2040



Source : McKinsey, HDFC Sec Inst Research

- In 2010, the working age population (people over 15 years old) was 1,125 mn in China. In India it was 850 mn.
- The median age of China's population was 34 years, in India it was only 25 (for comparison, the median age in Europe is 43 years).
- In absolute terms, in 2040 there will be around 1 billion working age people in India compared with 0.9 billion in China.

India's working population to outpace China

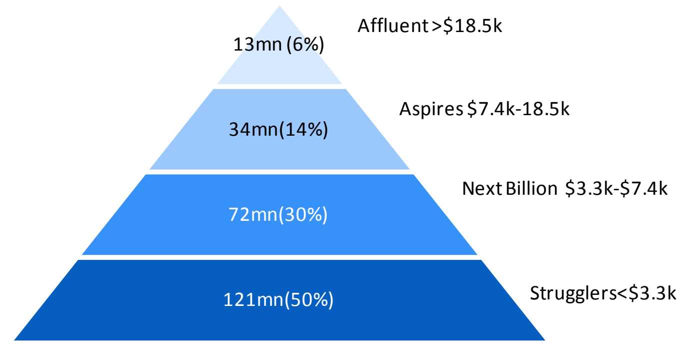


Source : Global Insight database, HDFC Sec Inst Research

Big middleclass, increasing disposable incomes

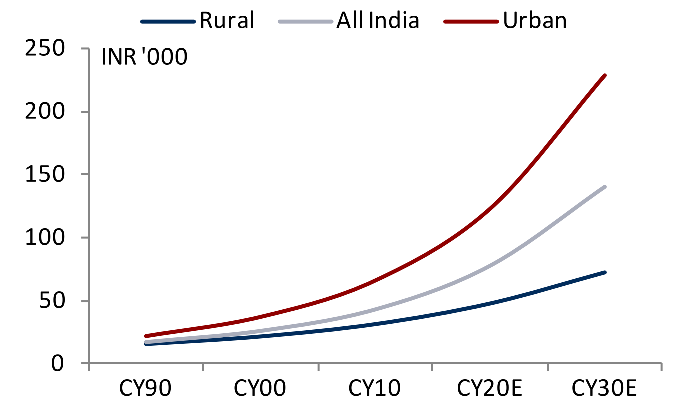
- The average household income is set to rise nearly 3 times between 2010 and 2020. The income pyramid in India which typically had a wide base of 'struggler' households (having per capita income <USD 3,300) is quickly becoming a diamond, as household incomes of the middle income groups grow.

Path to prosperity



Source : Euromonitor, BCG, HDFC Sec Inst Research

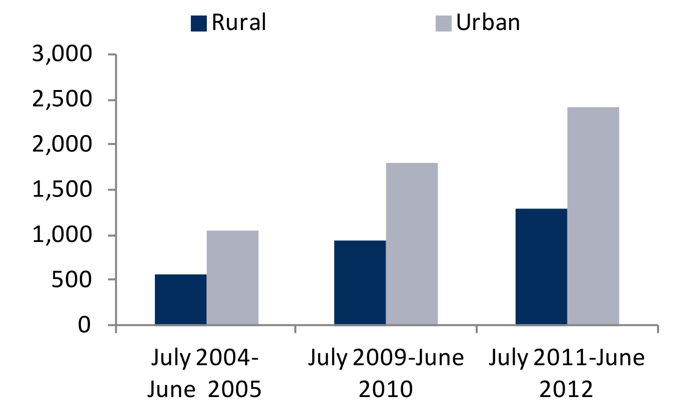
India to witness surge in average national income



Source : India Urbanization Econometric Model, McKinsey Global Institute analysis, HDFC Sec Inst Research

- Also, higher per capita disposable income and **Monthly per Capita Expenditure** (MPCE) creates a strong case for sustained FMCG market enlargement.
- Rural MPCE has outpaced urban MPCE in last two years. As rural MPCE grew by 17.5% CAGR, urban MPCE grew by 16% CAGR. This trend was visible in most consumer companies' sales as they reported higher rural growth vis-à-vis urban growth in past two years.

Average MPCE (Rs.): Sustained growth in consumption

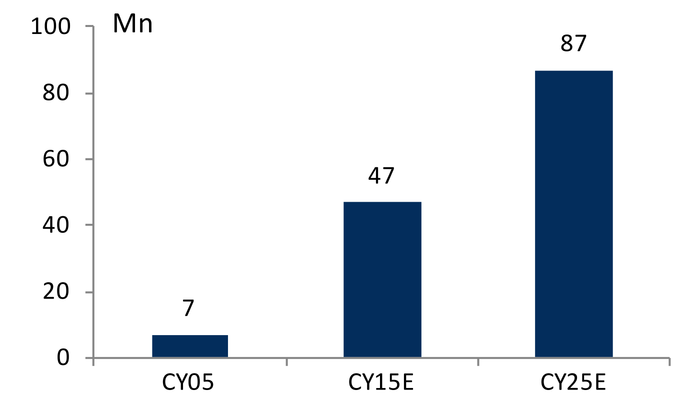


Source : NSSO, HDFC Sec Inst Research

Per capita disposable income

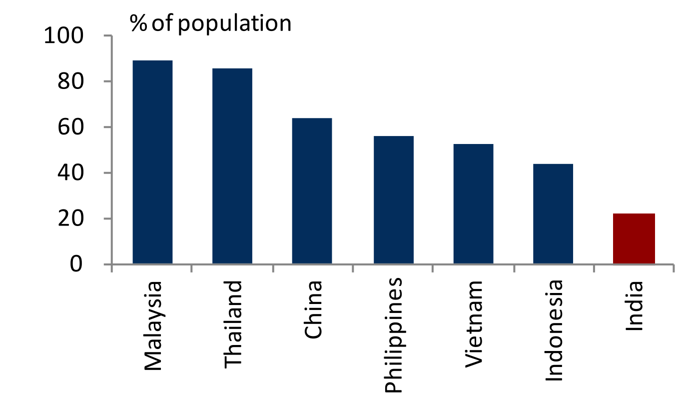
Source : CSO, HDFC Sec Inst Research

Middle class households



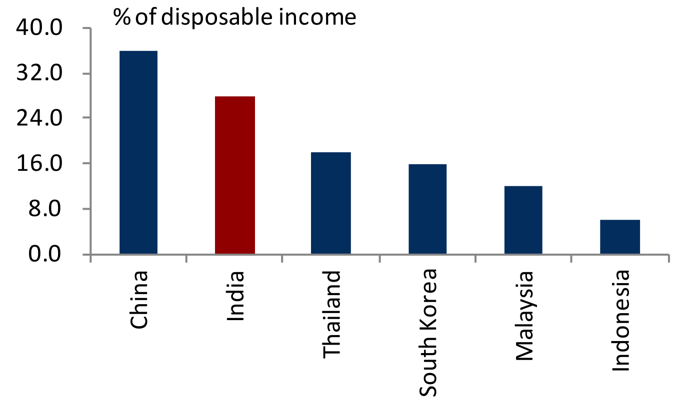
Source : Industry, HDFC Sec Inst Research

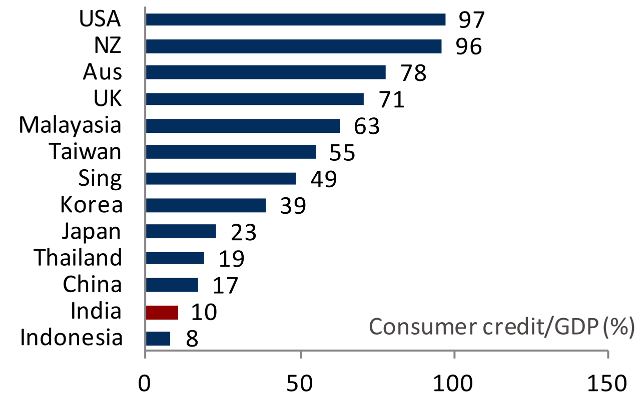
The Middle Class : across Asia



Source : Asian Development Bank, HDFC Sec Inst Research

High disposable income + low credit = recipe for higher spending



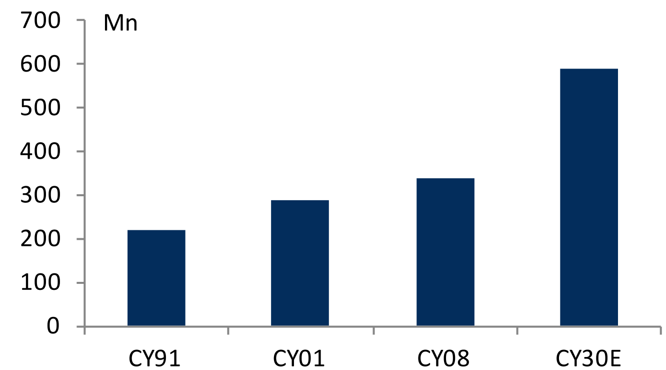


Source : McKinsey Global Institute analysis, HDFC Sec Inst Research

Urbanisation

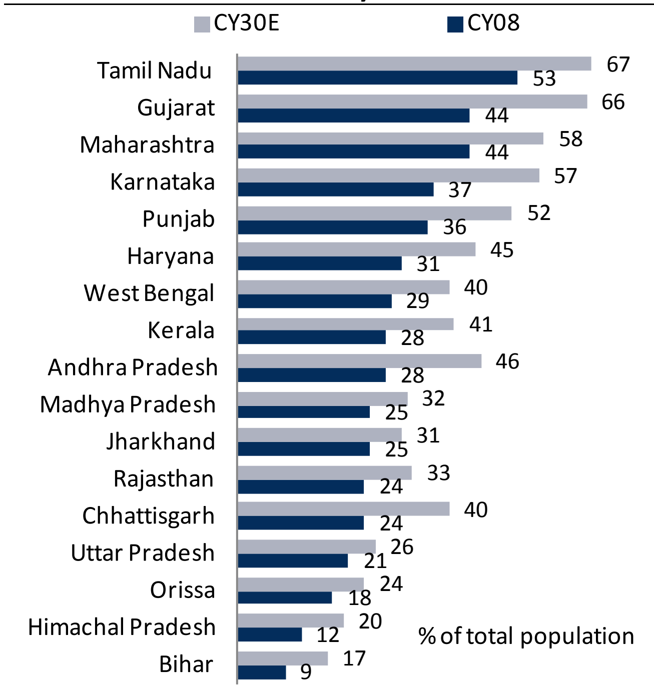
- By 2020 the percentage of India's population living in cities will rise to 35% from 31% in 2010. Urban dwellers not only tend to increase their purchases but also spend on more items thereby giving a boost to consumption.
- Urban population, currently at ~380mn, is expected to touch 590mn by 2030 (2.5% CAGR).

Rapid urbanisation



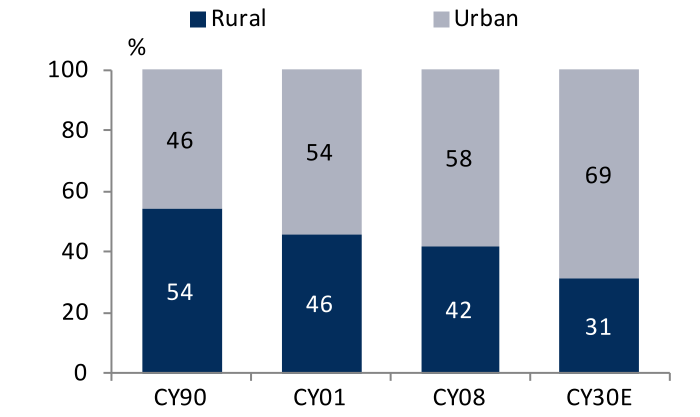
Source : McKinsey Global Institute analysis, HDFC Sec Inst Research

Statewise urbanization analysis



Source : India Urbanization Econometric Model, McKinsey Global Institute analysis, HDFC Sec Inst Research

70% of GDP to come from urban India

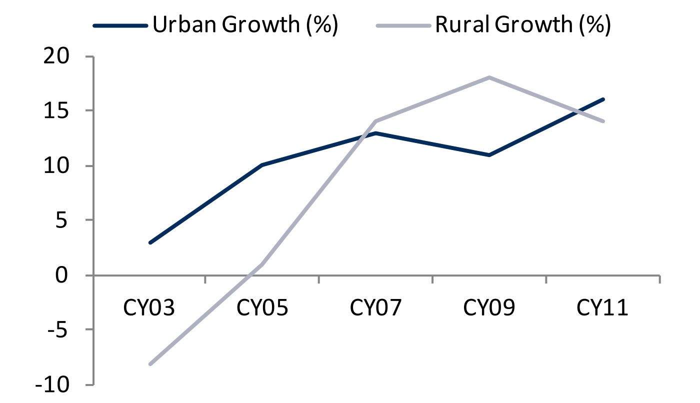


Source : India Urbanization Econometric Model, McKinsey Global Institute analysis, HDFC Sec Inst Research

Rural India will continue to bolster demand

- Rural India contributes to a third of the FMCG sector in India. Since CY08 (barring CY11) rural market has outgrown urban. Nielsen estimates that by 2025, the fast-moving consumer goods (FMCG) market in rural India will hit $100 billion and that inflation and pricing will be outstripped by consumption.

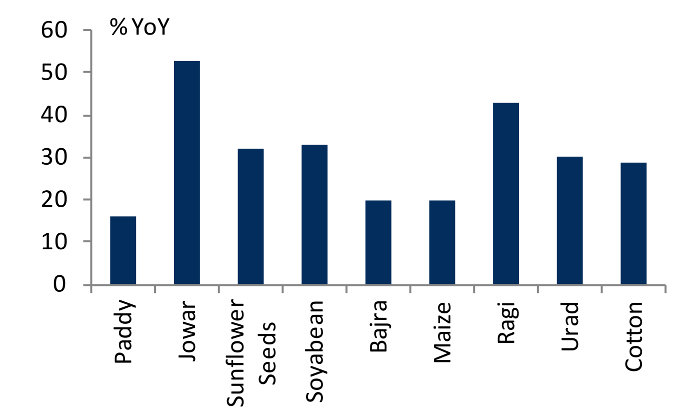
FMCG growth rural vs. urban



Source : Dabur, HDFC Sec Inst Research

- India's vast "media dark" rural market over the past decade experienced significant exposure to consumer goods products due to the surge in reach of satellite television. As per the industry sources, 60% of DTH addition comes from rural India which emphasizes on ever-increasing reach of media. Thereby driving the aspirations of rural India to use products like deodorants, conditioner, etc which is not linked with income growth.
- Asset price inflation (largely land and gold) drove an increased sense of affluence amongst the masses. Hike in Minimum Support Price for food grains and continued support under NREGS, among other factors, have driven rural incomes and demand.

YoY% increase in MSP for Kharif crops (FY13)



Source : Press Information Bureau, HDFC Sec Inst Research

Structural shift in MSPs

Rs/quintal	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
PADDY	570	580	645	850	950	1,000	1,080
BAJRA	525	540	600	840	840	880	980
MAIZE	540	540	620	840	840	880	980
RAGI	525	540	600	915	915	965	1,050
ARHAR(Tur)	1,400	1,410	1,550	2,000	2,300	3,000	3,200
COTTON	1,760	1,770	1,800	2,500	2,500	2,500	2,800
SUNFLOWER SEED	1,500	1,500	1,510	2,215	2,215	2,350	2,800
WHEAT	650	750	1,000	1,080	1,100	1,120	1,285
BARLEY	550	565	650	680	750	780	980
GRAM	1,435	1,445	1,600	1,730	1,760	2,100	2,800
RAPESEED/MUSTARD	1,715	1,715	1,800	1,830	1,830	1,850	2,500

Source: Ministry of agriculture, HDFC Sec Inst Research

There has been a gradual change in rural Indian consumers' shopping habits. While small-sized packages are vital for entry into the market, as purchasing power increases, rural consumers are increasingly buying larger packs at a lower cost per serving. Retailers who cater to these changing needs by offering a portfolio of products that provide a value proposition will be poised for growth.

Companies are more than aware about this colossal opportunity and have single mindedly focused on expanding their reach in rural India. **Companies are increasingly focusing on rural expansion with specific products and smaller SKUs.**

- **HUL has tripled its rural reach from early 2010** (a year before target). Its continued focus on rural distribution is evident from its 'Shakti Ammas/ Shaktimaans' initiative, a network of self-help groups that distribute the company's products in remote villages (population is below 2,000).
- **Emami initiated Project Swadesh in 2010** with an intention to increase rural coverage. The company created a new segment—rural—covering towns/villages with a population of less than 50,000 under Project Swadesh. The company adopted a hub-and-spoke model in these areas by appointing super-stockists and sub-stockists. Through Project Swadesh, in which its agents moved around villages in vehicles, Emami had reduced its dependency on wholesalers. By March 2012, the company had 160 superstockists and 4,000 sub-stockists. As a result, the direct rural reach grew substantially in 2011-12 and now contributes about 23 per cent of total sales. While the direct distribution channel, which has reach in 10,000 villages across the country, is contributing 23 per cent of the sales, the company aims to take it to 35-38% in next three years. Currently, including the direct and indirect channels, rural markets contribute about 45 per cent of total sales, which is expected to be above 50% in next 3 years. This strategy has boosted the sales of brands like Boroplus and Navratna and also the smaller brands. The company had also reached out to the rural consumers via marketing in local events like Kumbh Mela and through cultural shows like Jatras.

- **Dabur has initiated 'Project Double'** which is aimed at doubling the direct distribution reach in rural markets, customise trade promotions and provide focused servicing through a dedicated sales team in these markets. Thereby, the company plans to have direct access to some 27,000 villages with more than 3,000 people this fiscal. For the same, the company has identified 10 states that contribute 72% of the entire FMCG sales in the country. Under the new strategy, Dabur segmented its products into two - those operating in larger urban markets requiring exclusive category focused sales and those meant for smaller towns and rural markets requiring an integrated sales force.

- **GSK Consumer:** Currently, rural contributes around 26-27% sales to GSK consumer. GSK Consumer has been making efforts to tap into this market with various distribution initiatives and specialized packaging in smaller SKUs (INR 5, INR 10 and INR 15). These initiatives are likely to increase contribution from rural markets. The company is targeting to reach incremental ~10,000 villages (total villages: ~50,000) in year 2012. Also, sachet (18 grams sachet which is at Rs. 5) is growing at a very significant upward of 45% growth. These initiatives will contribute incremental ~750 mn to revenues.

Urban vs. rural contribution

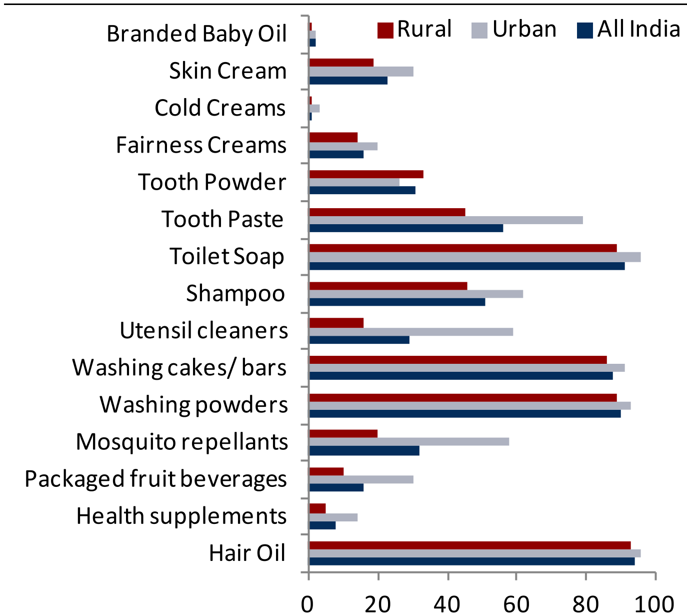
% of sales	Rural	Urban
Dabur	47%	53%
Emami	45%	55%
Hindustan Unilever	50%	50%
ITC	40-45%	55-60%
Marico	30%	70%
GSK consumer	26-27%	73-74%
GCPL	30%	70%
Nestle	25%	75%
Colgate	35%	65%

Source : Industry, HDFC Sec Inst Research

Low penetration, low per capita consumption

- Low penetration and low per capita daily consumption offers room for further growth. This is especially true for categories like Packaged food, Deodorants, Mosquito repellent, skin cream, etc indicating untapped market potential.
- Penetration gap between urban and rural market makes us more confident of existing opportunity in rural India.
- Though some categories (toothpaste, detergents, etc) have achieved high penetration, still significant growth opportunities exists by selling more to same consumer due to their lower per capita consumption.
- Increased disposable income, change in lifestyle, burgeoning middle class and more money in the hands of rural population can accelerate consumption and improve penetration.

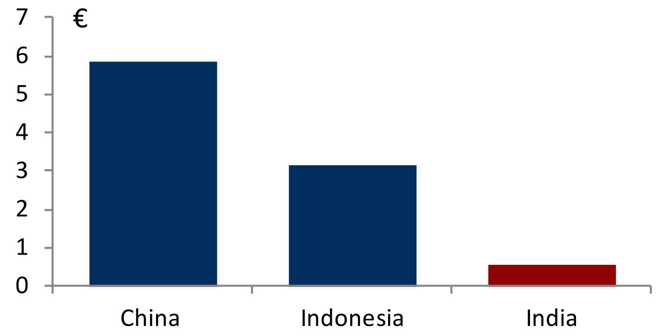
Penetration level



Source : Industry, HDFC Sec Inst Research

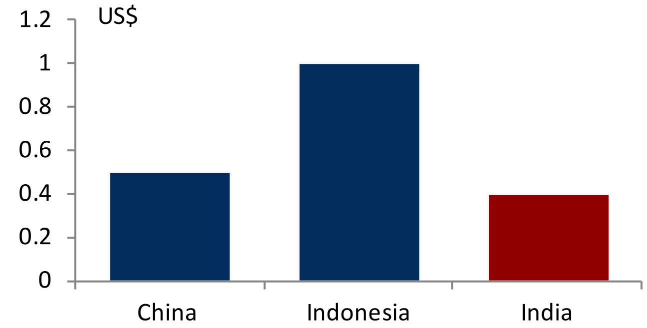
Per capita consumption per annum

Skin care



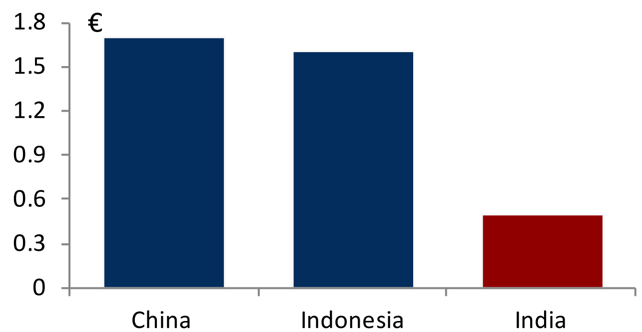
Source : Hindustan Unilever, HDFC Sec Inst Research

Toothpaste



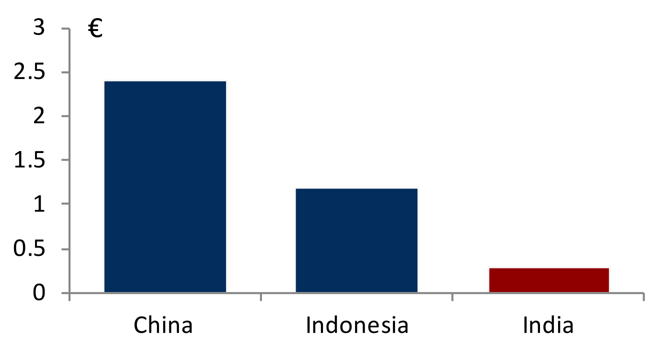
Source : Hindustan Unilever, HDFC Sec Inst Research

Shampoo



Source : Hindustan Unilever, HDFC Sec Inst Research

Ice cream



Source : Hindustan Unilever, HDFC Sec Inst Research

Focus on distribution

	Retail outlets
Colgate	4.5 mn
Dabur	5.5 mn
Emami	3 mn
GCPL	4.8-4.9mn
GSK consumer	1.5 mn
HUL	6.5 mn
ITC	6-6.5 mn
Marico	4 mn
Nestle	4 mn

Source: Industry data, HDFC Sec Inst Research

Low penetration + low per capita consumption + high distribution reach => high growth

Category	CY06 (INR mn)	CY10E (INR mn)	CAGR (2006-10)(%)
Biscuits	68,980	126,019	16
Edible Oil	48,277	93,565	18
Toilet soaps	60,074	88,589	10
Washing Powder	43,540	77,426	16
Packaged tea	39,571	66,373	14
Skin cream	25,352	54,138	21
Salty snacks	20,840	50,498	25
Detergents cake	26,248	43,696	14
Toothpaste	24,320	37,500	11
Hair oil	16,961	30,739	16
Shampoos	18,805	30,011	12
Chocolate	14,554	28,316	18
Beverages	15,205	28,278	17
Iodised salt	12,528	24,906	19
Coconut oil	14,403	21,832	11
Packaged wheat flour	8,671	20,933	25
Noodles	8,255	18,001	22
Milk food	7,132	13,825	18
Hair dyes	7,367	13,781	17
Utensil cleaner	6,468	11,962	17
Perfume & Deodorants	4,483	11,817	27
Coffee	6,334	9,646	11
Milk powder	4,458	8,505	18
Baby Food	4,017	7,361	16
Ketchups	2,379	4,775	19
Baby oil	1,827	3,471	17
Packaged rice	1,176	3,380	30
Breakfast cereals	1,125	3,214	30
Toilet cleaner	1,242	2,256	16
Floor cleaner	686	1,401	20
Liquid Toilet soap	450	1,372	32
Hair conditioners	423	1,332	33
Pre & post wash	521	1,219	24

Source : HDFC Sec Inst Research

Companies are focusing on premiumisation. Watch out for ITC.

Structural shift to healthy edible oil. Saffola major beneficiary.

Kurkure rules the roost. ITC present in the category with Bingo.

Branded hair oil (Bajaj Corp, Dabur, Emami and Marico's value added hair oil witnessed robust growth.

Disruptive pricing. Dabur's pain, MNC (HUL and P&G) gains.

Completely dominated by Cadbury. Nestle Laggard.

Parachute outgrew market.

Nestle rules. ITC may prove strong challenger.

GCPL capitalized. But consumers are getting inclined towards premium end.

HUL Axed the competitor.

Nestle's forte.

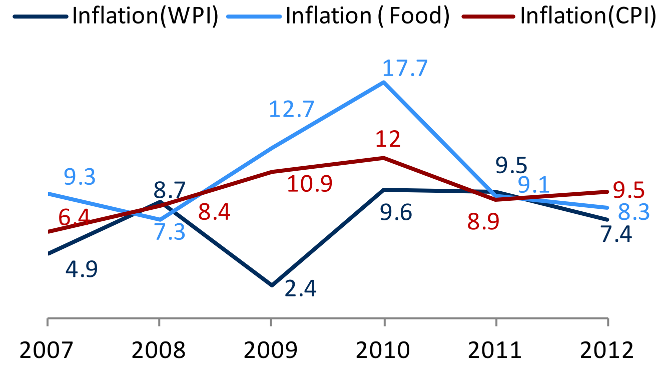
Kellogg's dominated the category. To exploit large opportunity Marico, GSK consumer and local players entered the category. Nestle next?

Macro situation turns a tad adverse

- Currently macroeconomic scenario is in a tight spot as India faces a deceleration in Industrial production and GDP growth.
- Steep inflation and the resultant high input costs coupled with adverse currency movements and reduced employment opportunities (esp. in urban India) are some of the other challenges in the Indian market.

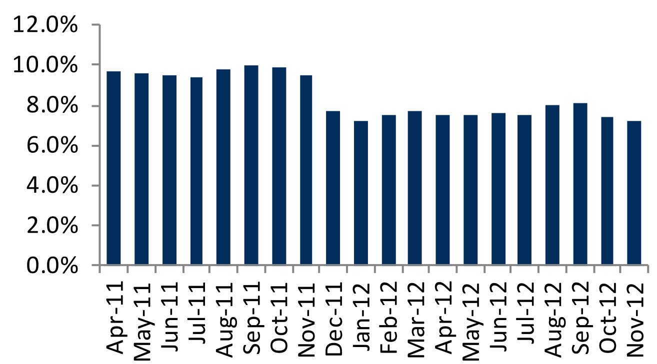
Inflation: Discretionary takes a hit

India is suffering from inertial inflation



Source : HDFC Sec Inst Research

WPI Inflation (YoY)



Source : Office of economic advisor, HDFC Sec Inst Research

- Sustained inflation dampens consumer confidence and this is evident from Private final consumption expenditure (PFCE) growth, an official estimate of consumer spending fell to 3.98% in the June quarter over the year-ago period after growing by 4.86% in the same period the previous year.

GDP slowing, Fiscal woes linger

Fiscal Deficit/Surplus (% of GDP)

	2010	2011	2012(P)	2013(P)
India	-9.3	-7.4	-8.1	-8.2
China	-2.3	-1.2	-1.3	-1
Russia	-3.5	1.6	0.6	-0.3
Brazil	-2.8	-2.6	-2.3	-2.4
South Africa	-5.8	-5.7	-4.3	-3.7
EU	-6.2	-4.1	-3.2	-2.7
US	-10.5	-9.6	-8.1	-6.3

Government Debt (% of GDP)

	2010	2011	2012(P)	2013(P)
India	69.4	68.1	67.6	66.8
China	33.5	25.8	22	19.4
Russia	11.7	9.6	8.4	7.9
Brazil	65.2	66.2	65.1	63.1
South Africa	36.3	40.5	42.8	NA
EU	85.7	88.1	90	91
US	98.5	102.9	106.6	110.2

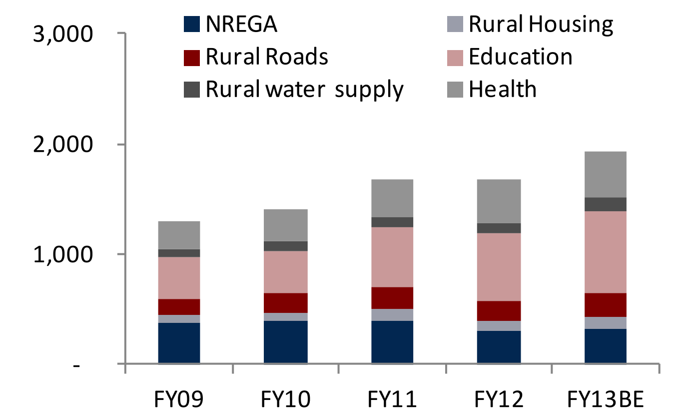
Fiscal Deficit widens

	FY09	FY10	FY11	FY12	FY13(P)
Centre	6	6.4	4.7	5.9	5.1
States	2.4	2.9	2.7	2.2	NA
Consolidated	8.4	9.3	7.4	8.1	NA

Source: RBI, HDFC Sec Inst Research

- In the worst-case scenario, the Kelkar committee said that the fiscal deficit would be 6.1% of GDP, instead of 5.1%, if corrective steps are not taken. Also, GDP estimates for FY13E have come down to sub 6 levels.
- S&P in April had changed the rating outlook of India from stable to negative, reflecting the possibility of a downgrade. The country's present rating is BBB- (Negative), the lowest investment grade rating, and a downgrade would result in India's rating slipping to junk status, raising the cost of overseas borrowings by domestic corporates.
- Inorder to avoid rating downgrade and move on the path of fiscal consolidation; there is high likelihood that government spending may be at moderate levels (this was witnessed in FY12 as well). **Moderation in spending may impact consumer demand esp. in rural India (spends on NREGA down ~25% in FY12).**

Moderation in government spending



Source : Budget documents, HDFC Sec Inst Research

Consumer confidence deteriorates

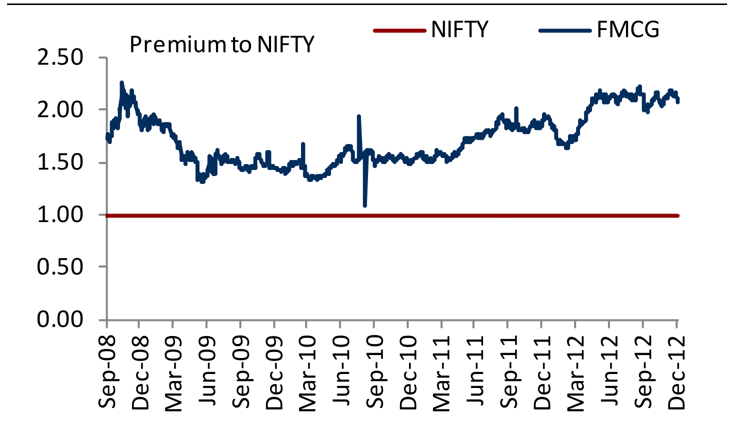
- As per the Consumer Confidence Survey: September 2012 conducted by RBI, for the first time the net response on perceptions about current economic conditions turned negative though sentiments about current and future economic conditions have been declining over the last four quarters.
- **There has been a noticeable drop in the positive perceptions on household circumstances, income and price level. Also, there has been a sharp decline in Future Expectations Index.**

FMCG companies are last to get impacted

- CNX FMCG index is trading at 100% premium to NIFTY (5-year average premium: 70%). T**he FMCG pack has outperformed the broader market by ~25% YTD owing to growth visibility, cleaner corporate governance, resilient demand, RM tailwinds, higher interest rates. But this is changing…**

Rate cuts to narrow the valuation gap

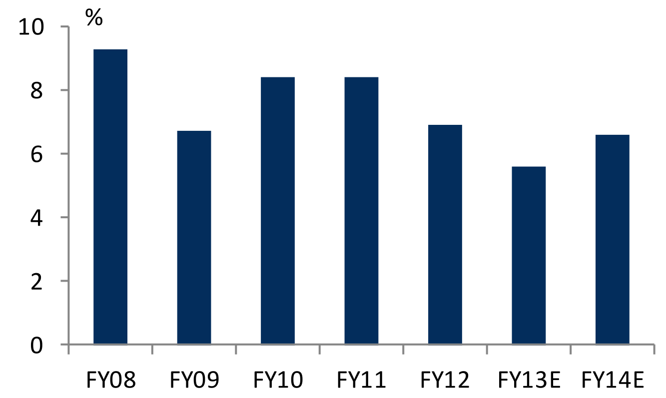
FMCG vis-à-vis NIFTY



Source : HDFC Sec Inst Research

- With imminent rate cuts, investors might switch to rate cyclical from defensives thereby narrowing premium between FMCG pack and NIFTY.
- Also, as GDP growth is expected to be sub 6% in FY12E (FY09: 6.7%), government spending is expected to mellow down due to governments focus on fiscal consolidation, consumer demand is expected to slow down (already witnessed in discretionary space) thereby impacting growth for FMCG cos.

India Real GDP growth rate



Source : CSO estimates, HDFC Sec Inst Research

- So we expect FMCG pack to underperform in near term. However, not all companies will be equally impacted. We like companies with diversified product portfolios, focus on innovations, and strong distribution reach**. Recommend BUY on ITC and Godrej Consumer, OPF on Emami, Dabur, Marico and HUL and UPF on Asian Paints, Nestle, Colgate and GSK Consumer.**

Valuations summary

Company	Reco	CMP (INR)	Mcap (INR bn)	Diluted EPS (INR)				P/E(x)				EV/EBITDA(x)				ROE (%)				Div yield (%)	EPS CAGR (%)
				FY12	FY13E	FY14E	FY15E	FY12	FY13E	FY14E	FY15E	FY12	FY13E	FY14E	FY15E	FY12	FY13E	FY14E	FY15E	FY15E	FY12-15E
Asian Paints	UPF	4,430	425	103.1	119.3	141.2	176.2	43.0	37.1	31.4	25.1	27.7	23.7	20.0	16.0	40.1	38.1	37.9	39.6	1.9	19.6
Colgate	UPF	1,436	195	32.8	37.8	44.5	51.3	43.7	38.0	32.3	28.0	33.1	28.5	23.6	20.3	109.0	110.0	112.9	113.3	2.6	16.1
Dabur	OPF	128	225	3.7	4.4	5.3	6.2	34.9	29.5	24.4	20.7	25.3	21.3	17.5	14.6	41.5	39.3	37.8	35.9	1.7	19.1
Emami	OPF	602	91	18.3	20.4	24.3	29.5	32.9	29.5	24.8	20.4	30.0	25.4	20.0	16.0	37.1	41.3	43.3	45.0	1.7	17.2
Godrej Consumer	BUY	731	249	15.5	20.7	25.9	33.6	47.2	35.3	28.2	21.7	30.5	23.9	19.1	15.6	22.1	21.3	23.1	26.9	1.5	29.5
GSK Consumer	UPF	3,760	158	84.4	104.0	120.9	142.9	44.5	36.2	31.1	26.3	29.2	24.6	20.9	17.1	34.9	35.8	34.5	33.6	1.5	19.2
Hindustan Unilever	OPF	523	1,130	12.4	15.3	17.5	19.5	42.2	34.1	29.8	26.9	31.2	26.0	22.2	18.8	83.6	78.7	70.5	63.0	2.2	16.2
ITC	BUY	290	2,281	8.0	9.6	11.4	13.5	36.5	30.2	25.5	21.4	23.7	19.5	16.5	13.8	35.6	37.5	39.8	42.6	3.0	19.4
Marico	OPF	222	136	5.2	6.5	7.7	9.5	42.7	34.2	28.6	23.2	28.8	22.0	18.3	15.1	31.0	30.5	28.5	27.8	0.6	22.5
Nestle	UPF	4,913	474	99.7	110.5	131.7	155.3	49.3	44.4	37.3	31.6	30.4	26.9	22.7	19.2	90.3	69.8	62.1	57.1	1.6	15.9

Source : HDFC Sec Inst Research

Asian Paints

UNDERPERFORM

INDUSTRY	FMCG
CMP *(as on 19 Dec 2012)*	**Rs 4,430**
Target Price	**Rs 4,200**
Nifty	5,930
Sensex	19,476

KEY STOCK DATA	
Bloomberg	APNT IN
No. of Shares (mn)	96
MCap (Rs bn) / ($ mn)	425 / 7,788
6m avg traded value (Rs mn)	319

STOCK PERFORMANCE (%)			
52 Week high / low			**Rs 4,449 / 2,550**
	3M	6M	12M
Absolute (%)	13.6	14.0	66.6
Relative (%)	8.3	(1.5)	39.9

SHAREHOLDING PATTERN (%)	
Promoters	52.79
FIs & Local MFs	8.84
FIIs	18.07
Public & Others	20.30

Source : BSE

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Weak demand affects valuations

Sustained high inflation has resulted in postponement of paint demand (volume growth was -2% in 1QFY13 and ~7% in 2QFY13). We expect softness in demand to continue for the next couple of quarters. Volume growth plummeted below normalized run-rate of 1.8-2.0x GDP which gives us little comfort with the stock at 31.4x FY14E. Recommend UPF with TP of INR 4,200.

Demand slowdown to prolong?

- Real estate and automobile industries are going through difficult patch led by slowdown in economic growth and high interest rates – impacting paint companies. Sustained high inflation provided no respite as repainting demand gets postponed. This is evident from muted domestic volume growth seen in 1HFY13. With the FY13 festive season spilling into 3QFY13, we think the quarter assumes greater significance than normal (companies have pinned their hope on demand revival on 3QFY13). Any disappointment in 3QFY13 may lead to derating as consensus nos. imply volume growth of 10%, thereby yielding unfavourable risk-reward.
- Also, international operations (grew ~10% in 1QFY13; 19% in 2QFY13) face challenges (the MENA region, which contributes 50 per cent to international revenues, is in the throes of political tension).

Price led growth waning

- The last price hike that the company undertook was in May 2012. Also, muted domestic volume growth makes it difficult to effect further price increase.
- Restrain in increasing prices might not impact profitability due to softening in RM cost however revenue growth might continue to remain under pressure.

INR weakness wipes out RM benefit

- Raw material prices are seeing a downtrend but are offset by rupee depreciation. Currency is a key monitorable, since import-linked RMs are ~55% of COGS.
- TiO2 prices have declined 20% from peak in past 6 months, primarily on account of slowing demand in Europe and China.

Valuations

- At CMP, the stock is trading at 31.4x FY14E (valuations remain high at 31% premium to the 5 year-average). We derive little comfort with such valuation (given moderation in volume growth) and recommend UPF with one year TP of INR 4,200 (24x FY15E EPS in line with 5 year average multiple).

Financial summary

Particulars (Rs mn)	FY11	FY12	FY13E	FY14E	FY15E
Net Sales	77,223	96,322	111,348	131,229	155,785
Growth (%)	15.6	24.7	15.6	17.9	18.7
EBIDTA	13,281	15,088	17,603	20,812	25,819
EBIDTA margin (%)	17.2	15.7	15.8	15.9	16.6
Net profit	8,432	9,887	11,445	13,546	16,902
EPS (Rs/sh)	87.9	103.1	119.3	141.2	176.2
P/E (x)	50.4	43.0	37.1	31.4	25.1
EV/EBITDA	31.4	27.7	23.7	20.0	16.0
RoE (%)	43.3	40.1	38.1	37.9	39.6

Source: Company, HDFC Sec Inst Research

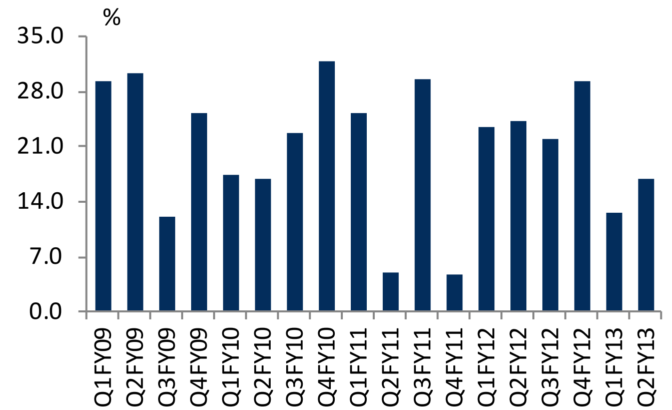
The last price hike that the company undertook was in May 2012

Muted domestic volume growth in 1HFY13 (1QFY13: (2%); 2QFY13: 5-7%)

TiO2 prices have declined 20% from peak in past 6 months

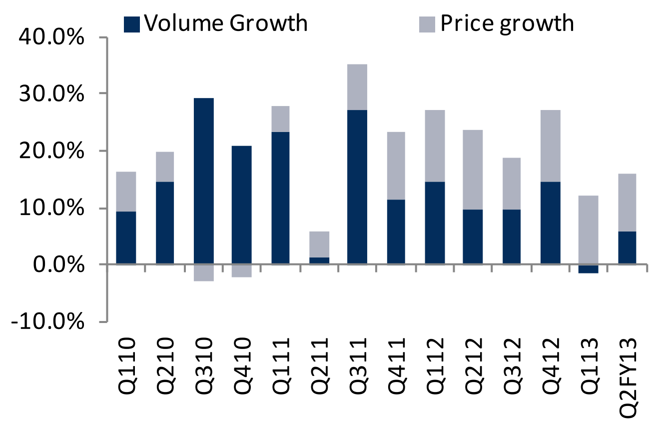
Volume growth witness pressure

Consol sales growth; muted 1HFY13



Source : Company, HDFC Sec Inst Research

Demand slowdown in domestic decorative biz



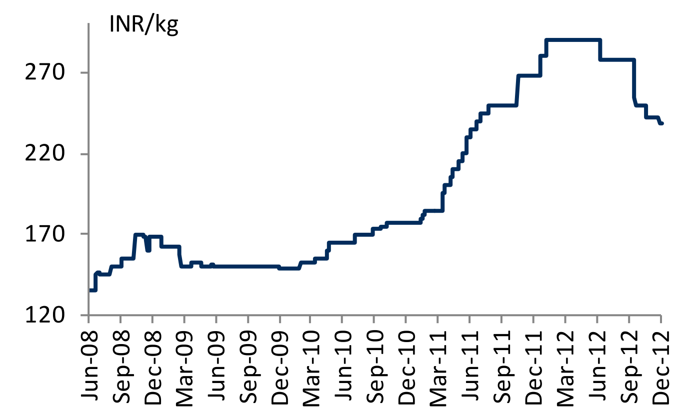
Source : Company, HDFC Sec Inst Research

- Real estate and automobile industries are going through difficult patch led by slowdown in economic growth and high interest rates – impacting paint companies. Sustained high inflation provided no respite as repainting demand gets postponed. Evident from muted domestic volume growth in 1HFY13 (1QFY13: (2%); 2QFY13: 5-7%). With the FY13 festive season spilling into 3QFY13, we think the quarter assumes greater significance than normal (companies have pinned their hope on demand revival on 3QFY13E).
- Disappointment in 3QFY13E may lead to de-rating as implied volume growth built in consensus nos. is 10% thereby yielding unfavourable risk-reward ratio.
- Also, international operations (grew ~10% in 1QFY13; 19% in 2QFY13) are undergoing challenging scenario in the overseas markets, mainly in MENA, which contributes 50 per cent to international revenues. Raw materials (which impacted overall margins) were a bigger concern in international markets as Asian Paints' pricing power is lower in these regions due to smaller market share.

Price led growth waning

- The last price hike that the company undertook was in May 2012. Also, muted domestic volume growth makes it difficult to effect further price increase.
- Restrain in increasing prices might not impact profitability due to softening in RM cost however revenue growth might continue to remain under pressure.

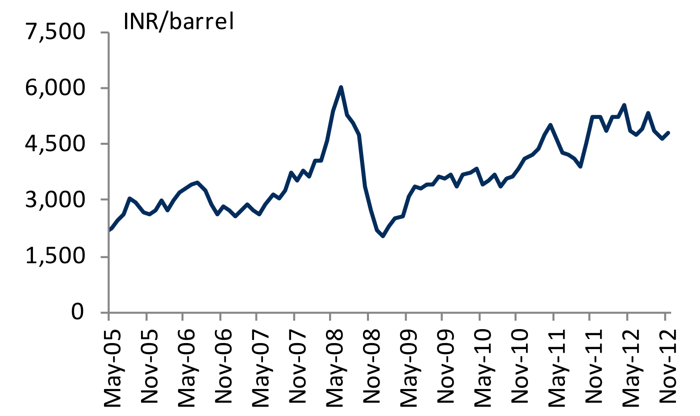
TiO2 softens……..



Source : HDFC Sec Inst Research

One-year fwd PE is 31% premium to the 5 year-average

……… crude continues to remain firm



Source : HDFC Sec Inst Research

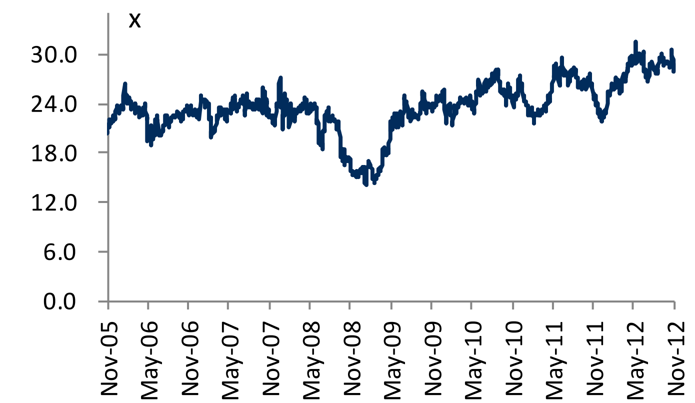
Capex

- The company to expend INR 7.5bn on capex in FY13. This includes INR 5bn spent on Khandala plant (capacity: 300KL) which will be commissioned in last quarter of FY13. Khandala plant will eventually be scaled up to 400KL. This is likely to impact depreciation from 1QFY14E.

Valuations

- At CMP, the stock is trading at 31.4x FY14E (valuations remain high at 31% premium to the 5 year-average). We derive little comfort with such valuation (given moderation in volume growth) and recommend UPF with one year TP of INR 4,200 (24x FY15E EPS in line with 5 year average multiple).

One- year fwd PE chart



Source : HDFC Sec Inst Research

Key risks

- 3QFY13, being festive quarter, witness robust volume recovery
- TiO2, key RM, witness steep decline in prices
- Rupee appreciation will help reduce RM pressure

Income statement

(Rs mn)	FY11	FY12	FY13E	FY14E	FY15E
Net Sales	**77,223**	**96,322**	**111,348**	**131,229**	**155,785**
Growth (%)	**15.6**	**24.7**	**15.6**	**17.9**	**18.7**
Material Expenses	44,746	57,770	66,139	78,109	91,648
Employee Expenses	4,540	5,260	6,277	7,482	8,817
A&P Expenses	3,426	4,101	4,936	5,823	6,921
Other Operating Expenses	11,231	14,104	16,392	19,003	22,579
EBIDTA	**13,281**	**15,088**	**17,603**	**20,812**	**25,819**
EBIDTA (%)	**17.2**	**15.7**	**15.8**	**15.9**	**16.6**
EBIDTA Growth (%)	8.2	13.6	16.7	18.2	24.1
Other Income	680	1,074	1,126	1,405	1,490
Depreciation	1,131	1,211	1,468	1,847	2,145
EBIT	12,830	14,951	17,262	20,370	25,165
Interest	232	410	460	506	379
PBT	12,597	14,541	16,801	19,864	24,787
Tax	3,784	4,335	4,990	5,900	7,362
Minority Interest	(381)	(319)	(366)	(419)	(523)
Core PAT	**8,432**	**9,887**	**11,445**	**13,546**	**16,902**
Core PAT Growth (%)	**0.9**	**17.3**	**15.8**	**18.4**	**24.8**
RPAT	8,432	9,887	11,445	13,546	16,902
RPAT Growth (%)	0.9	17.3	15.8	18.4	24.8
EPS	**87.9**	**103.1**	**119.3**	**141.2**	**176.2**
EPS Growth (%)	0.9	17.3	15.8	18.4	24.8

Source : Company, HDFC Sec Inst Research

Balance sheet

(Rs mn)	FY11	FY12	FY13E	FY14E	FY15E
SOURCES OF FUNDS					
Share Capital	959	959	959	959	959
Reserves	20,915	26,526	31,692	37,839	45,508
Total Shareholders Funds	**21,874**	**27,485**	**32,652**	**38,798**	**46,468**
Minority Interest	1,099	1,367	1,733	2,152	2,675
Long Term Debt	581	559	722	783	483
Short Term Debt	1,753	2,853	2,889	1,828	1,128
Total Debt	2,334	3,411	3,611	2,611	1,611
Deferred Taxes	852	928	928	928	928
Long Term Provisions	766	784	784	784	784
TOTAL SOURCES OF FUNDS	**26,925**	**33,975**	**39,708**	**45,273**	**52,465**
APPLICATION OF FUNDS					
Net Block	12,727	12,590	18,623	21,775	24,631
CWIP	433	6,171	4,200	4,500	4,500
Goodwill	372	415	415	415	415
Investments	4,290	3,547	3,547	3,547	3,547
LT Loans & Advances	1,042	3,273	3,273	3,273	3,273
Inventories	13,054	15,989	16,778	19,774	23,474
Trade Receivables	5,731	7,813	7,932	9,348	11,097
Cash & Equivalents	6,262	6,243	8,163	8,376	10,209
ST Loans & Advances	1,065	1,862	1,862	1,862	1,862
Other Current Assets	1,130	1,059	1,059	1,059	1,059
Current Assets	27,242	32,966	35,795	40,419	47,702
Trade Payables	10,874	12,968	14,126	16,638	19,584
Other Current Liabilities & Provisions	8,306	12,019	12,019	12,019	12,019
Current Liabilities	19,181	24,987	26,145	28,657	31,603
Net current Assets	8,061	7,978	9,650	11,762	16,099
TOTAL APPLICATION OF FUNDS	**26,925**	**33,975**	**39,708**	**45,273**	**52,465**

Source : Company, HDFC Sec Inst Research

Cash flow statement

(Rs mn)	FY11	FY12	FY13E	FY14E	FY15E
Profit before tax	12,597	14,541	16,801	19,864	24,787
Interest, Dep & Others	(3,208)	(3,482)	(3,062)	(3,547)	(4,838)
Working Capital Change	(1,765)	(2,795)	249	(1,900)	(2,504)
OPERATING CASH FLOW (a)	**7,625**	**8,264**	**13,988**	**14,418**	**17,444**
Capex	(4,506)	(1,166)	(5,529)	(5,300)	(5,000)
Free Cash Flow	3,118	7,098	8,459	9,118	12,444
Investments & Others	102	(3,956)	-	-	-
INVESTING CASH FLOW (b)	**(4,404)**	**(5,121)**	**(5,529)**	**(5,300)**	**(5,000)**
Debt Issuance	56	970	200	(1,000)	(1,000)
Interest	(232)	(404)	(460)	(506)	(379)
Dividend	(3,168)	(3,831)	(6,278)	(7,399)	(9,233)
FINANCING CASH FLOW (c)	**(3,345)**	**(3,265)**	**(6,539)**	**(8,905)**	**(10,611)**
Fx effect	**12**	**104**	**-**	**-**	**-**
NET CASH FLOW (a+b+c)	**(112)**	**(19)**	**1,920**	**213**	**1,833**
Closing Cash	6,262	6,243	8,163	8,376	10,209

Source : Company, HDFC Sec Inst Research

Key ratios

	FY11	FY12	FY13E	FY14E	FY15E
PROFITABILITY (%)					
GPM	42.1	40.0	40.6	40.5	41.2
EBITDA Margin	17.2	15.7	15.8	15.9	16.6
EBIT Margin	15.7	14.4	14.5	14.5	15.2
APAT Margin	10.9	10.3	10.3	10.3	10.8
RoE	43.3	40.1	38.1	37.9	39.6
RoCE	65.2	52.3	48.5	48.7	52.2
EFFICIENCY					
Tax Rate (%)	30	30	30	30	30
Asset Turnover (x)	3.2	3.2	3.0	3.1	3.2
Inventory (days)	53	55	55	55	55
Debtors (days)	26	26	26	26	26
Payables (days)	70	54	55	55	55
Cash Conversion Cycle (days)	9	27	26	26	26
Debt/EBITDA (x)	0.2	0.2	0.2	0.1	0.1
D/E	0.1	0.1	0.1	0.1	0.0
Interest Coverage	52.3	-	-	-	-
VALUATION					
EPS (Rs/sh)	87.9	103.1	119.3	141.2	176.2
CEPS (Rs/sh)	103.7	119.0	138.4	164.8	204.0
BV (Rs/sh)	228.0	286.5	340.4	404.5	484.4
P/E	50.4	43.0	37.1	31.4	25.1
P/BV	19.4	15.5	13.0	11.0	9.1
EV/EBITDA	31.4	27.7	23.7	20.0	16.0
EV/Revenues	5.4	4.3	3.7	3.2	2.6
Dividend Yield (%)	0.7	0.9	1.3	1.5	1.9

Source : Company, HDFC Sec Inst Research

COMPANY UPDATE | 21 DEC 2012

HDFC securities

INSTITUTIONAL RESEARCH

Colgate Palmolive

UNDERPERFORM

INDUSTRY	FMCG
CMP *(as on 19 Dec 2012)*	**Rs 1,436**
Target Price	**Rs 1,300**
Nifty	5,930
Sensex	19,476
KEY STOCK DATA	
Bloomberg	CLGT IN
No. of Shares (mn)	136
MCap (Rs bn) / ($ mn)	195 / 3,579
6m avg traded value (Rs mn)	114
STOCK PERFORMANCE (%)	
52 Week high / low	**Rs 1,482 / 932**

	3M	6M	12M
Absolute (%)	19.7	29.7	42.6
Relative (%)	14.4	14.2	16.0

SHAREHOLDING PATTERN (%)	
Promoters	51.00
FIs & Local MFs	6.02
FIIs	20.86
Public & Others	22.12

Source : BSE

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Looming competitive intensity

Colgate's dominance in Indian oral care market continues unabated thanks to 1) deep distribution network, 2) unparalleled brand salience 3) high pricing power, 4) continued innovation and premiumisation (leader of nascent categories: sensitive toothpaste and mouthwash) and 5) new capacities to meet rising demand (new plant @ Sanand and AP). However, likely to face higher competitive pressure from all quarters with HUL and Dabur having upped the ante and delayed but imminent entry of P&G in toothpaste category. At current valuations, trading at 32.3x FY14E (40% premium than 5-year avg), the stock does not offer any respite. Recommend UPF with TP of INR 1,300.

Domination in oral care market to continue

- The Colgate brand is almost synonymous with oral care products in India thanks to its deep distribution network (4.5 mn outlets) and effective marketing strategies along with focused market activity to increase toothpaste use. This has helped Colgate to grow its market share in Indian oral care market despite stiff competition.
- Its volume share in toothpaste increased by 200bps yoy to 54% in 2QFY13. Colgate also occupies a 26% share (by volume) of the nascent but fast-growing mouthwash category.

Competition is coming

- India boasts to be in top 10 developing market for P&G and too large an oral care market for P&G to ignore. *As per Shantanu Khosla, MD at P&G India, P&G plans to bring the parent's entire portfolio to the country with the exception of toilet paper*. Thereby we believe that sooner rather than later P&G will enter toothpaste category.
- HUL, in oral care category, has become more active which is evident from the entry into sensitive category (via Pepsodent extra protection range) and mouthwash. Also, Dabur has intensified its focus on toothpaste category.

Valuations does not provide respite

- We have experienced in the past that, HUL stock de-rated with the entry of P&G in detergent category.
- So despite our expectation that P&G will take share from No. 2 player and Colgate will retain its market share but there are heightened chances of disruptive pricing, increased A&P and would result in de-rating of the stock.
- Also, at current price the stock is trading at 32.3x FY14E (40% premium to 5-year avg). Recommend UPF on the stock with TP of 1,300 (25x FY15E).

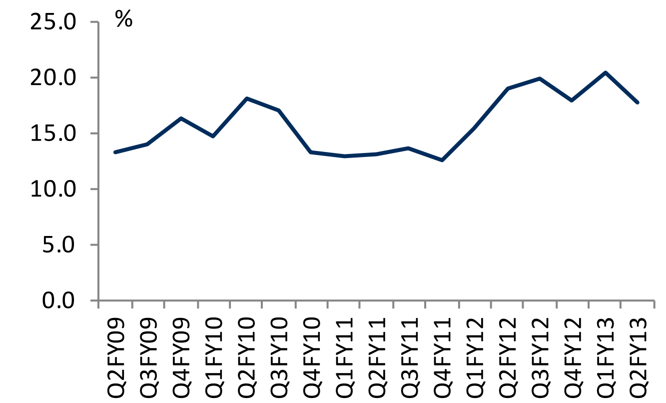
Financial summary

Particulars	FY11	FY12	FY13E	FY14E	FY15E
Net Sales (in Rs Mn)	22,861	26,932	31,554	36,642	42,878
Growth (%)	12.3	17.8	17.2	16.1	17.0
EBIDTA (in Rs Mn)	5,146	5,785	6,689	8,043	9,304
EBIDTA margin (%)	22.5	21.5	21.2	22.0	21.7
Net profit (in Rs Mn)	4,026	4,465	5,135	6,047	6,981
EPS (Rs.)	29.6	32.8	37.8	44.5	51.3
P/E (x)	48.5	43.7	38.0	32.3	28.0
EV/EBITDA	37.1	33.1	28.5	23.6	20.3
RoE (%)	113.4	109.0	110.0	112.9	113.3

Source: Company, HDFC Sec Inst Research

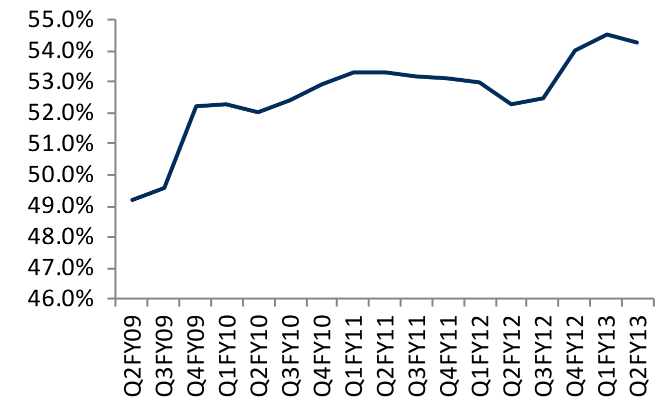
Volume share in toothpaste increased by 200bps yoy to 54% in 2QFY13

Sales growth resilient



Source : Company, HDFC Sec Inst Research

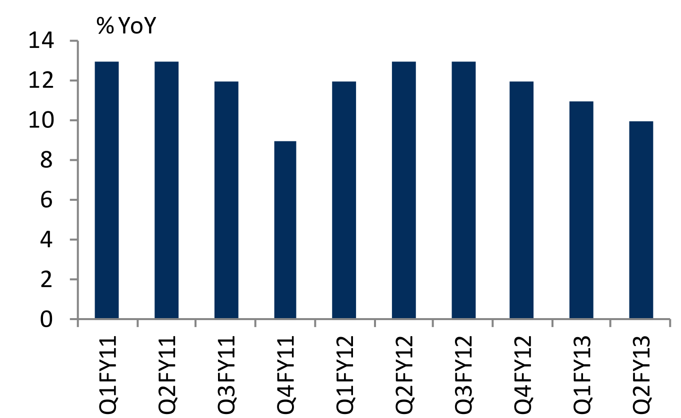
Aided by market share gain



Source : Company, HDFC Sec Inst Research

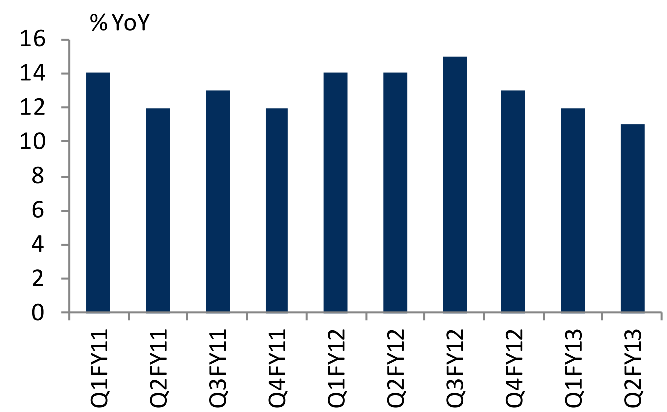
Continued innovation and premiumization backed by high A&P

Overall volume growth



Source : Company, HDFC Sec Inst Research

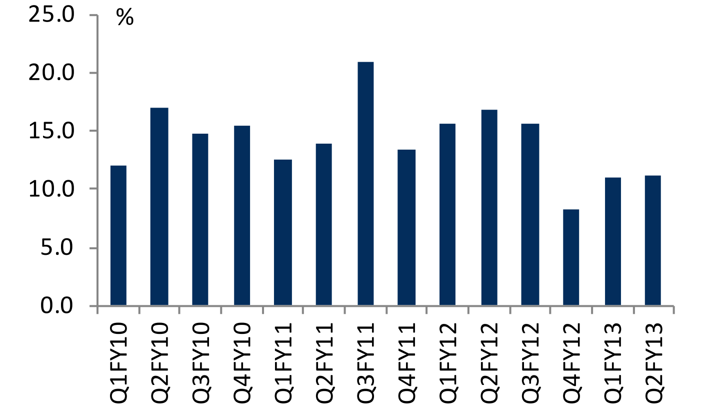
Toothpaste volume growth



Source : Company, HDFC Sec Inst Research

P&G plans to bring the parent's entire portfolio to the country with the exception of toilet paper

Sustained investment in brand building



Source : Company, HDFC Sec Inst Research

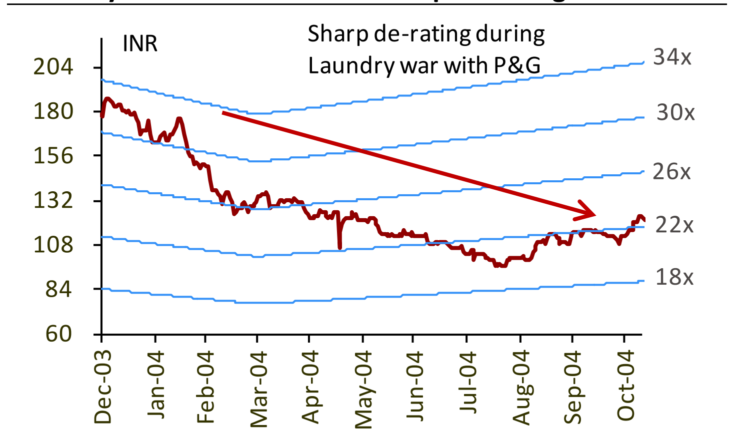
Aggression intensified: HUL and Dabur

- HUL, in oral care category, has become more active which is evident from the 1) launch of new Pepsodent extra protection range 2) entered mouthwash category and sensitive toothpaste category -category of the future. As per the HUL management, more actions are expected in promotions, marketing and distribution to regain lost market share.
- Also, Dabur has intensified its focus on toothpaste category. The company has increased its ad spends on high margin Meswaak and Red toothpaste and also launched variants in Babool to increase profitability.

P&G's entry delayed but imminent

- India boasts to be in top 10 developing market for P&G and too large an oral care market for P&G to ignore.
- India continues to be growth driver for the company with P&G in India has increased its distribution reach to ~6 mn retail outlets, witnessed decade of 20% organic sales growth and value share increasing from 3.5% to 10%.
- P&G currently only sells toothbrushes in India under the Oral B brand. Toothbrushes barely constitute 10% of the Indian oral care market, compared to toothpastes that account for three-fourths of the market.
- As per Shantanu Khosla, managing director at P&G India, P&G plans to bring the parent's entire portfolio to the country with the exception of toilet paper. Thereby we believe that sooner rather than later P&G will enter toothpaste category in India.

Laundry war with P&G led to sharp de-rating of HUL



Source : HDFC Sec Inst Research

__HUL stock de-rated with the entry of P&G in detergent category__

__Colgate is trading at 40% premium to the 5 year-average valuation__

Valuations does not provide respite

- We have experienced in the past that, HUL stock derated with the entry of P&G in detergent category.
- So despite our expectation that P&G will take share from No. 2 player and Colgate will retain its market share but there are heightened chances of disruptive pricing, increased A&P and would result in de-rating of the stock.
- Also, at current price the stock is trading at 32.3x FY14E (40% premium to 5-year avg). Recommend UPF on the stock with TP of 1,300 (25x FY15E).

Key risks

- Lack of concerted attack by competition will not dent Colgate's base significantly.
- Delay in P&G's entry

One- year fwd PE trading chart

Source : HDFC Sec Inst Research

Income statement

(Rs mn)	FY11	FY12	FY13E	FY14E	FY15E
Net Sales	**22,861**	**26,932**	**31,554**	**36,642**	**42,878**
Growth (%)	**12.3**	**17.8**	**17.2**	**16.1**	**17.0**
Material Expenses	8,720	10,502	12,685	14,584	17,065
Employee Expenses	1,932	2,156	2,556	2,931	3,430
A&P Expenses	3,493	4,121	4,733	5,496	6,539
Other Operating Expenses	3,570	4,368	4,891	5,588	6,539
EBIDTA	**5,146**	**5,785**	**6,689**	**8,043**	**9,304**
EBIDTA (%)	**22.5**	**21.5**	**21.2**	**22.0**	**21.7**
EBIDTA Growth (%)	3.2	12.4	15.6	20.2	15.7
Other Income	412	507	544	597	703
Depreciation	**342**	**393**	**426**	**514**	**562**
EBIT	5,216	5,899	6,808	8,126	9,445
Interest	16	15	7	10	11
PBT	5,199	5,884	6,801	8,116	9,433
Tax	1,174	1,419	1,666	2,070	2,453
Core PAT	**4,026**	**4,465**	**5,135**	**6,047**	**6,981**
Core PAT Growth (%)	**(4.9)**	**10.9**	**15.0**	**17.8**	**15.4**
RPAT	4,026	4,465	5,135	6,047	6,981
RPAT Growth (%)	(4.9)	10.9	15.0	17.8	15.4
EPS	**29.6**	**32.8**	**37.8**	**44.5**	**51.3**
EPS Growth (%)	(4.9)	10.9	15.0	17.8	15.4

Source : Company, HDFC Sec Inst Research

Balance sheet

(Rs mn)	FY11	FY12	FY13E	FY14E	FY15E
SOURCES OF FUNDS					
Share Capital	136	136	136	136	136
Reserves	3,705	4,218	4,850	5,594	6,453
Total Shareholders Funds	**3,841**	**4,354**	**4,986**	**5,730**	**6,589**
Long Term Debt	1	-	-	-	-
Short Term Debt	-	1	-	-	-
Total Debt	1	1	-	-	-
Deferred Taxes	(168)	(121)	(121)	(121)	(121)
Long Term Provisions	269	301	301	301	301
TOTAL SOURCES OF FUNDS	**3,941**	**4,534**	**5,165**	**5,910**	**6,769**
APPLICATION OF FUNDS					
Net Block	2,550	2,544	3,418	3,555	3,642
CWIP	82	694	80	60	60
Investments	387	471	471	471	471
LT Loans & Advances	183	225	225	225	225
Inventories	1,537	2,177	2,167	2,506	2,921
Trade Receivables	753	873	944	1,086	1,259
Cash & Equivalents	3,951	3,098	4,120	4,935	6,010
ST Loans & Advances	646	1,021	1,021	1,021	1,021
Other Current Assets	81	72	72	72	72
Current Assets	6,969	7,240	8,323	9,620	11,283
Trade Payables	3,786	3,690	4,402	5,071	5,962
Other Current Liabilities & Provisions	2,445	2,951	2,951	2,951	2,951
Current Liabilities	6,230	6,641	7,353	8,022	8,913
Net current Assets	739	599	971	1,599	2,370
TOTAL APPLICATION OF FUNDS	**3,941**	**4,534**	**5,165**	**5,910**	**6,769**

Source : Company, HDFC Sec Inst Research

Cash flow statement

(Rs mn)	FY11	FY12	FY13E	FY14E	FY15E
Profit before tax	5,199	5,884	6,801	8,116	9,433
Interest, Dep & Others	(1,040)	(916)	(1,234)	(1,546)	(1,879)
Working Capital Change	(580)	(940)	650	187	303
OPERATING CASH FLOW (a)	**3,579**	**4,028**	**6,218**	**6,758**	**7,858**
Capex	(411)	(1,022)	(686)	(630)	(650)
Free Cash Flow	3,168	3,006	5,532	6,128	7,208
Investments & Others	1,012	920	-	-	-
INVESTING CASH FLOW (b)	**600**	**(102)**	**(686)**	**(630)**	**(650)**
Debt Issuance	(45)	-	(1)	-	-
Interest	(16)	(15)	(7)	(10)	(11)
Dividend	(3,168)	(3,965)	(4,503)	(5,303)	(6,122)
FINANCING CASH FLOW (c)	**(3,230)**	**(3,980)**	**(4,510)**	**(5,312)**	**(6,133)**
Fx effect	**-**	**-**	**-**	**-**	**-**
NET CASH FLOW (a+b+c)	**950**	**(55)**	**1,022**	**815**	**1,075**
Closing Cash	3,951	3,098	4,120	4,935	6,010

Source : Company, HDFC Sec Inst Research

Key ratios

	FY11	FY12	FY13E	FY14E	FY15E
PROFITABILITY (%)					
GPM	61.9	61.0	59.8	60.2	60.2
EBITDA Margin	22.5	21.5	21.2	22.0	21.7
EBIT Margin	21.0	20.0	19.9	20.5	20.4
APAT Margin	17.6	16.6	16.3	16.5	16.3
RoE	113.4	109.0	110.0	112.9	113.3
RoCE	148.4	141.6	143.1	148.6	149.0
EFFICIENCY					
Tax Rate (%)	23	24	25	26	26
Asset Turnover (x)	6.5	6.4	6.5	6.6	6.8
Inventory (days)	21	25	25	25	25
Debtors (days)	7	11	11	11	11
Payables (days)	83	65	65	65	65
Cash Conversion Cycle (days)	(55)	(28)	(29)	(29)	(29)
Debt/EBITDA (x)	0.0	0.0	-	-	-
D/E	0.0	0.0	-	-	-
Interest Coverage	298.3	356.4	-	-	-
VALUATION					
EPS (Rs/sh)	29.6	32.8	37.8	44.5	51.3
CEPS (Rs/sh)	32.1	35.7	40.9	48.2	55.5
BV (Rs/sh)	28.2	32.0	36.7	42.1	48.5
P/E	48.5	43.7	38.0	32.3	28.0
P/BV	50.8	44.9	39.2	34.1	29.6
EV/EBITDA	37.1	33.1	28.5	23.6	20.3
EV/Revenues	8.4	7.1	6.0	5.2	4.4
Dividend Yield (%)	1.4	1.7	1.9	2.2	2.6

Source : Company, HDFC Sec Inst Research

Dabur

OUTPERFORM

INDUSTRY	**FMCG**
CMP *(as on 19 Dec 2012)*	**Rs 128**
Target Price	**Rs 145**
Nifty	5,930
Sensex	19,476
KEY STOCK DATA	
Bloomberg	DABUR IN
No. of Shares (mn)	1,743
MCap (Rs bn) / ($ mn)	224 / 4,102
6m avg traded value (Rs mn)	150

STOCK PERFORMANCE (%)			
52 Week high / low			**Rs 140 / 92**
	3M	6M	12M
Absolute (%)	2.9	17.9	33.2
Relative (%)	(2.4)	2.3	6.6

SHAREHOLDING PATTERN (%)	
Promoters	68.66
FIs & Local MFs	5.43
FIIs	19.22
Public & Others	6.69

Source : BSE

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Distribution led growth

Dabur is taking on competition head on, with its ambitious rural distribution plan (90% implemented) and revamp in product portfolio backed by increase in ad spend. This along with sustained dominance in Fruit Juice category makes us confident of it to achieve 10% volume growth in FY13E. However due to geo-political tension in MENA region, international business may come under stress but it is partly offset by growth opportunities. Recommend OPF on the stock with TP of INR 145 (24x FY15E).

Focusing on volume growth : right approach

Dabur's constant focus on volume growth against margins makes us confident of its ability to achieve 10% volume growth in FY13E. 1) The company is revamping product portfolio across categories: hair oil (relaunched Amla hair oil); refurbishment of the shampoos (shampoos growth revived in past two quarters), Ethical (relaunch of 30 plus), Skin care (launched new initiatives under the gold and the pearl range in FEM bleach), Air Freshners (introduces air freshening gels under Odonil), Foods (more extensions and variants planned in both Real and Activ range). 2) This is backed by higher ad spend (ad spends jumped 307bps and 175bps in 1QFY13 and 2QFY13 respectively). 3) The fast-growing fruit juice segment (growing at ~17%) is dominated by Real (50% market share). We expect Real to grow faster than the market. 4) 'Project double' (90% implemented) aimed at doubling the direct distribution reach in rural markets. Post this initiative rural contribution has increased from 45% to 47%. The company has total retail reach of 5-5.5 mn outlets (widest distributed product for Dabur reaches 3.5mn outlets).

Global business to grow despite pressures

Due to geo-political tension in MENA region, international business may come under stress but it is partly offset by growth opportunities viz. 1) launched Hobi personal care portfolio in neighboring Middle East, 2) plans to ramp up its Bangladesh business (new factory to be commissioned by end of FY13E). Also, recalibration of ORS brand in US and Africa to aid growth (to take approx. 2 quarters). We expect it to grow by 15-16% in constant currency term.

Valuations : growth concern overemphasized

At CMP, the stock is trading at 24.4x FY14E and 20.7x FY15E. With company's constant focus on volume growth and its herbal positioning we believe the stock to sustain its valuation. Recommend OPF on the stock with TP of INR 145 (24x FY15E).

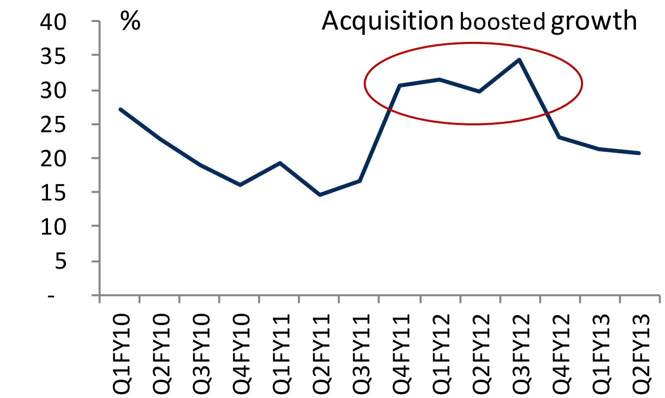
Financial summary

Particulars	FY11	FY12	FY13E	FY14E	FY15E
Net Sales (in Rs Mn)	41,045	53,054	62,065	72,161	84,113
Growth (%)	20.2	29.3	17.0	16.3	16.6
EBIDTA (in Rs Mn)	8,000	8,902	10,482	12,509	14,580
EBIDTA margin (%)	19.5	16.8	16.9	17.3	17.3
Net profit (in Rs Mn)	5,686	6,449	7,641	9,232	10,896
EPS (Rs.)	3.3	3.7	4.4	5.3	6.2
P/E (x)	39.5	34.9	29.5	24.4	20.7
EV/EBITDA	28.4	25.3	21.3	17.5	14.6
RoE (%)	49.0	41.5	39.3	37.8	35.9

Source: Company, HDFC Sec Inst Research

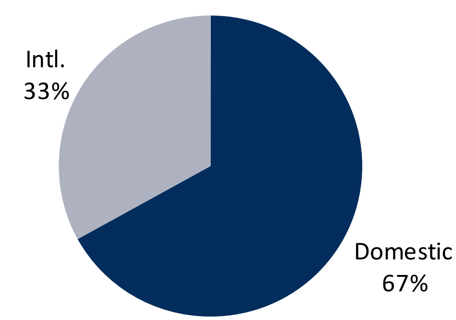
We are confident of Dabur's ability to achieve 10% volume growth in FY13E

Revenue growth trend



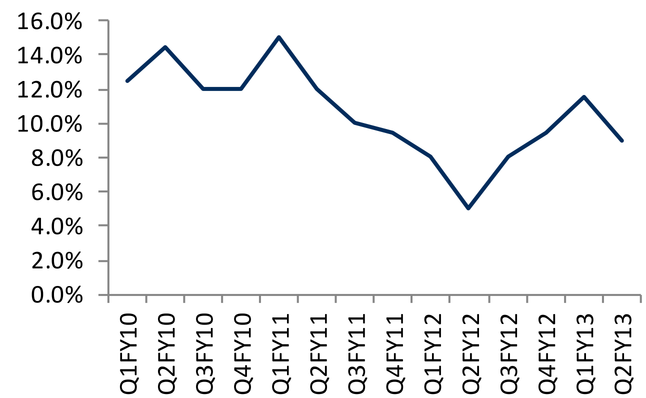
Source : Company, HDFC Sec Inst Research

Domestic v/s international



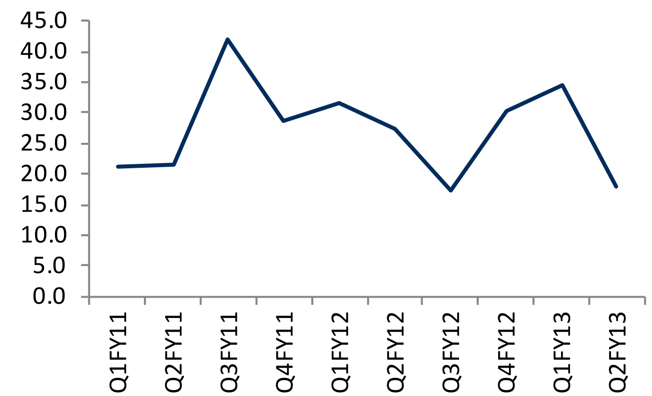
Source : Company, HDFC Sec Inst Research

Domestic volume growth highly volatile



Source : Company, HDFC Sec Inst Research

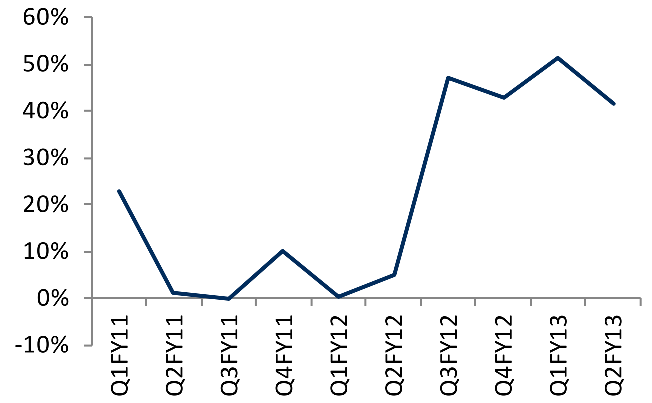
Food consistent performer; gaining share



Source : Company, HDFC Sec Inst Research

10% volume growth achievable as ………

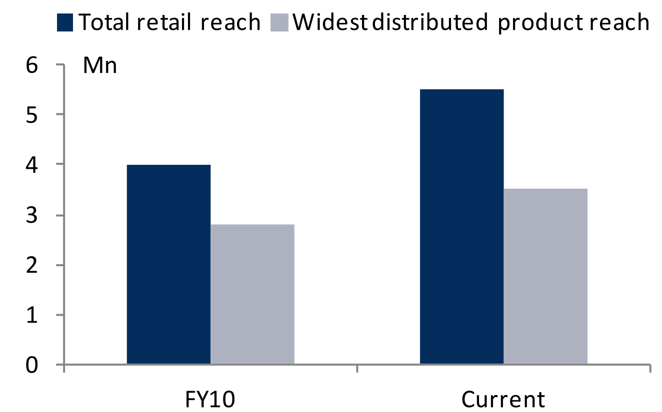
……. Investing in brands



Source : Company, HDFC Sec Inst Research

The company has total retail reach of 5-5.5 mn outlets (widest distributed product for Dabur reaches 3.5mn outlets)

……..Jump in distribution



Source : Company, HDFC Sec Inst Research

……….. Diversified portfolio; dominant market share

Category	Position	Market Share	Key brands
Hair Care	3	12%	Dabur Amla hair oil,Vatika Hair oil & Vatika Shampoos
Oral Care	3	13%	Red toothpaste, Babool, Meswak, red Toothpowder
Ayurvedic Tonics	1	67%	Dabur Chyawanprash
Digestives	1	56%	Hajmola
Fruit Juices	1	52%	Real Fruit Juices,Real Active
Honey	1	50%	Dabur Honey
Glucose	2	25%	Dabur Glucose
Skin Care (Bleaches)	1	50%	Fem
Air Freshners	1	40%	Odonil

Source : Company, HDFC Sec Inst Research

Current valuation is inline with 5 year-average

Valuations : growth concern overemphasized

- At CMP, the stock is trading at 24.4x FY14E and 20.7x FY15E. With company's constant focus on volume growth and its herbal positioning we believe the stock to sustain its valuation. Recommend OPF on the stock with TP of INR 145 (24x FY15E).

Key risk

- Political instability in Middle East region
- Increased competitive intensity in high growth Fruit Juice segment

One-year forward PE chart

Source : HDFC Sec Inst Research

Income statement

(Rs mn)	FY11	FY12	FY13E	FY14E	FY15E
Net Sales	**41,045**	**53,054**	**62,065**	**72,161**	**84,113**
Growth (%)	**20.2**	**29.3**	**17.0**	**16.3**	**16.6**
Material Expenses	19,375	26,852	30,847	35,792	41,720
Employee Expenses	3,087	3,874	4,636	5,318	6,199
A&P Expenses	5,346	6,595	8,035	9,163	10,681
Other Operating Expenses	5,237	6,831	8,066	9,379	10,933
EBIDTA	**8,000**	**8,902**	**10,482**	**12,509**	**14,580**
EBIDTA (%)	**19.5**	**16.8**	**16.9**	**17.3**	**17.3**
EBIDTA Growth (%)	23.6	11.3	17.8	19.3	16.6
Other Income	322	574	838	926	1,017
Depreciation	952	1,032	1,186	1,347	1,430
EBIT	7,370	8,443	10,133	12,088	14,167
Interest	291	538	618	590	563
PBT	7,079	7,905	9,515	11,498	13,604
Tax	1,390	1,464	1,884	2,277	2,721
Minority Interest	(3)	8	9	11	13
Core PAT	**5,686**	**6,449**	**7,641**	**9,232**	**10,896**
Core PAT Growth (%)	**13.0**	**13.4**	**18.5**	**20.8**	**18.0**
RPAT	5,686	6,449	7,641	9,232	10,896
RPAT Growth (%)	13.0	13.4	18.5	20.8	18.0
EPS	**3.3**	**3.7**	**4.4**	**5.3**	**6.2**
EPS Growth (%)	12.7	13.0	18.5	20.8	18.0

Source : Company, HDFC Sec Inst Research

Balance sheet

(Rs mn)	FY11	FY12	FY13E	FY14E	FY15E
SOURCES OF FUNDS					
Share Capital	1,741	1,742	1,742	1,742	1,742
Reserves	12,170	15,427	19,949	25,413	31,862
Total Shareholders Funds	**13,911**	**17,169**	**21,691**	**27,156**	**33,605**
Minority Interest	*41*	*33*	*24*	*13*	*(1)*
Long Term Debt	7,174	7,272	4,831	4,606	4,381
Short Term Debt	3,336	3,963	5,904	5,629	5,354
Total Debt	10,510	11,235	10,735	10,235	9,735
Deferred Taxes	189	274	274	274	274
Long Term Provisions	5,777	6,576	6,576	6,576	6,576
TOTAL SOURCES OF FUNDS	**30,428**	**35,287**	**39,300**	**44,253**	**50,188**
APPLICATION OF FUNDS					
Net Block	14,987	16,412	17,526	17,679	17,749
CWIP	324	268	350	300	300
Investments	4,197	4,825	4,825	4,825	4,825
LT Loans & Advances	3,399	4,327	4,327	4,327	4,327
Inventories	7,085	8,239	8,947	10,384	12,081
Trade Receivables	3,555	4,617	4,763	5,518	6,410
Cash & Equivalents	2,805	4,484	6,750	10,816	15,818
ST Loans & Advances	1,267	1,543	1,543	1,543	1,543
Other Current Assets	1,611	1,509	1,509	1,509	1,509
Current Assets	16,323	20,391	23,511	29,769	37,360
Trade Payables	6,611	8,592	8,895	10,302	12,028
Other Current Liabilities & Provisions	2,190	2,345	2,345	2,345	2,345
Current Liabilities	8,802	10,937	11,240	12,647	14,373
Net current Assets	7,521	9,455	12,272	17,122	22,987
TOTAL APPLICATION OF FUNDS	**30,428**	**35,287**	**39,300**	**44,253**	**50,188**

Source : Company, HDFC Sec Inst Research

Cash flow statement

(Rs mn)	FY11	FY12	FY13E	FY14E	FY15E
Profit before tax	7,079	7,905	9,515	11,498	13,604
Interest, Dep & Others	9	(1,280)	(80)	(339)	(728)
Working Capital Change	(1,346)	(761)	(551)	(784)	(863)
OPERATING CASH FLOW (a)	**5,742**	**5,864**	**8,884**	**10,375**	**12,012**
Capex	(9,260)	(2,242)	(2,382)	(1,450)	(1,500)
Free Cash Flow	(3,518)	3,622	6,502	8,925	10,512
Investments & Others	(1,538)	(63)	-	-	-
INVESTING CASH FLOW (b)	**(10,798)**	**(2,305)**	**(2,382)**	**(1,450)**	**(1,500)**
Debt Issuance & Others	8,707	727	(500)	(500)	(500)
Interest	(300)	(521)	(618)	(590)	(563)
Dividend	(1,952)	(2,086)	(3,119)	(3,768)	(4,447)
FINANCING CASH FLOW (c)	**6,455**	**(1,880)**	**(4,236)**	**(4,859)**	**(5,510)**
Fx effect	**-**	**-**	**-**	**-**	**-**
NET CASH FLOW (a+b+c)	1,399	1,679	2,265	4,066	5,002
Closing Cash	2,805	4,484	6,750	10,816	15,818

Source : Company, HDFC Sec Inst Research

Key ratios

	FY11	FY12	FY13E	FY14E	FY15E
PROFITABILITY (%)					
GPM	52.8	49.4	50.3	50.4	50.4
EBITDA Margin	19.5	16.8	16.9	17.3	17.3
EBIT Margin	17.2	14.8	15.0	15.5	15.6
APAT Margin	13.9	12.2	12.3	12.8	13.0
RoE	49.0	41.5	39.3	37.8	35.9
RoCE	40.4	27.8	28.6	30.2	31.0
EFFICIENCY					
Tax Rate (%)	20	19	20	20	20
Asset Turnover (x)	2.0	1.6	1.7	1.7	1.8
Inventory (days)	51	53	53	53	53
Debtors (days)	21	28	28	28	28
Payables (days)	62	63	63	63	63
Cash Conversion Cycle (days)	10	18	18	18	17
Debt/EBITDA (x)	1.3	1.3	1.0	0.8	0.7
D/E	0.8	0.7	0.5	0.4	0.3
Interest Coverage	24.2	14.6	15.0	18.9	23.4
VALUATION					
EPS (Rs/sh)	3.3	3.7	4.4	5.3	6.2
CEPS (Rs/sh)	3.8	4.3	5.1	6.1	7.1
BV (Rs/sh)	8.0	9.9	12.4	15.6	19.3
P/E	39.5	34.9	29.5	24.4	20.7
P/BV	16.1	13.0	10.3	8.2	6.7
EV/EBITDA	28.4	25.3	21.3	17.5	14.6
EV/Revenues	5.5	4.3	3.6	3.0	2.5
Dividend Yield (%)	0.9	1.0	1.2	1.4	1.7

Source : Company, HDFC Sec Inst Research

HDFC securities

INSTITUTIONAL RESEARCH

COMPANY UPDATE | 21 DEC 2012

Emami

OUTPERFORM

INDUSTRY			FMCG
CMP *(as on 19 Dec 2012)*			**Rs 602**
Target Price			**Rs 650**
Nifty			5,930
Sensex			19,476
KEY STOCK DATA			
Bloomberg			HMN IN
No. of Shares (mn)			151
MCap (Rs bn) / ($ mn)			91 / 1,669
6m avg traded value (Rs mn)			65
STOCK PERFORMANCE (%)			
52 Week high / low			**Rs 658 / 309**
	3M	6M	12M
Absolute (%)	20.6	27.8	69.4
Relative (%)	15.3	12.3	42.8
SHAREHOLDING PATTERN (%)			
Promoters			72.74
FIs & Local MFs			3.65
FIIs			14.61
Public & Others			9.00

Source : BSE

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Growth handsome but valuation far from fair

Emami's strong focus on niche product portfolio with herbal positioning ensures lower competitive intensity from MNCs. On account of resilient domestic volume growth, anticipated seasonally stronger 2HFY13 with softening in key RM and aggressive management, we recommend OPF with TP of INR 650.

Higher focus on existing portfolio to aid growth

- Emami has gamut of high growth potential product portfolio. Due to its herbal positioning, Emami remains shielded from MNC competition. Also, lower penetration level provides high growth potential to these categories.
- The management with an eye to grab a larger pie of the market has constantly invested in the brands (highest A&P as % of sales amongst peers @ 17-18%).
- We believe that managements increased focus on existing product portfolio will help achieve 14-15% volume growth for next 2 years.

Bangladesh: the new opportunity

- Emami will soon commission a factory in Bangladesh (trial production going on) with an eye on INR 1000 mn revenue in FY14E.
- The company plans to set up manufacturing facility in Egypt to cater MENA region (commission in FY14E). However CIS (fighting counterfeits) and GCC (geo-political issue) remain under pressure in near term.

RM tailwinds to provide profitability boost

- Menthol (20% of COGS) witnessed unparalleled inflation over the past 2 years when it moved from INR 900/kg to INR 2700/kg. However in past 9 months, menthol prices have softened (continues to be volatile) at INR 1500-1600 range. In 1HFY13, average price of menthol was at INR 1900/kg (due to long term menthol contracts) vis-à-vis INR 1400 in FY12E. Subdued prices would aid gross margin in 2HFY13 (maximum benefit in 1QFY14E) as the company continues to take 5-6% price hike annually.

Valuations

- Lower competitive intensity, higher pricing power and growth visibility makes valuation of Emami look compelling at a 25x FY14 and 20x FY15E. Recommend OPF on the stock with one year TP of INR 650 (22x FY15E in line with 5 year average multiple).

Financial summary

Particulars	FY11	FY12	FY13E	FY14E	FY15E
Net Sales (in Rs Mn)	12,471	14,535	17,056	20,020	24,037
Growth (%)	20.1	16.6	17.3	17.4	20.1
EBIDTA (in Rs Mn)	2,534	2,968	3,445	4,284	5,228
EBIDTA margin (%)	20.3	20.4	20.2	21.4	21.8
Net profit (in Rs Mn)	2,287	2,588	3,090	3,677	4,457
EPS (Rs.)	14.3	18.3	20.4	24.3	29.5
P/E (x)	42.0	32.9	29.5	24.8	20.4
EV/EBITDA	35.9	30.0	25.4	20.0	16.0
RoE (%)	34.8	37.1	41.3	43.3	45.0

Source: Company, HDFC Sec Inst Research

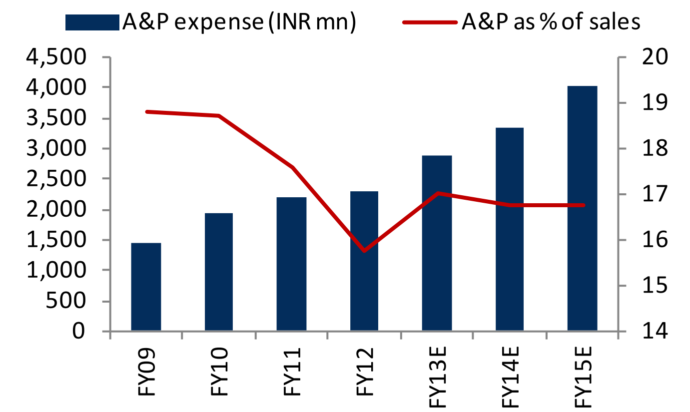
Niche portfolio with herbal positioning; dominant market share

Power Brand	Segment	Market Size (INR Mn)	Market Size (USD in Mn)	Emami Market share in% 2005	2011
Navratna Oil	Cooling oil	6650	125	47	54
Boroplus Cream	Antiseptic cream	3050	57	65	75
Zandu & Mentho Plus balm	Balm	6100	114	13	56
Fair & Handsome	Mens fairness Cream	2850	53		57
Boroplus Powder	Prickly Heat Powder	2200	41	16	14
Navratna cool talc	Cool talc	3350	63		17
Fast relief	Pain reliever	4350	81	7	5
Sona chandi & Zandu	Chyawanprash	2100	39	10	15

Source : Company, HDFC Sec Inst Research

Highest A&P as % of sales amongst peers @ 17-18%

Sustained brand investment



Source : Company, HDFC Sec Inst Research

Menthol prices have declined 40% from peak in past 9 months

Menthol – steep correction from peak

Source : Company, HDFC Sec Inst Research

Emami is trading at 15% premium to the 5 year-average valuation

Valuations

- Lower competitive intensity, higher pricing power and growth visibility makes valuation of Emami look compelling at a 25x FY14 and 20x FY15E. Recommend OPF on the stock with one year TP of INR 650 (22x FY15E in line with 5 year average multiple).

Key risks

- Product portfolio is seasonal in nature
- High volatility in menthol(20% of COGS) prices

One-year forward PE chart

Source: HDFC Sec Inst Research

Income statement

(Rs mn)	FY11	FY12	FY13E	FY14E	FY15E
Net Sales	12,471	14,535	17,056	20,020	24,037
Growth (%)	**20.1**	**16.6**	**17.3**	**17.4**	**20.1**
Material Expenses	5,232	6,264	7,095	8,258	9,855
Employee Expenses	729	923	1,194	1,301	1,562
A&P Expenses	2,194	2,290	2,899	3,353	4,026
Other Operating Expenses	1,782	2,090	2,422	2,823	3,365
EBIDTA	**2,534**	**2,968**	**3,445**	**4,284**	**5,228**
EBIDTA (%)	**20.3**	**20.4**	**20.2**	**21.4**	**21.8**
EBIDTA Growth (%)	2.8	17.1	16.1	24.4	22.0
Other Income	331	541	579	646	799
Depreciation	140	188	216	295	374
EBIT	2,725	3,321	3,808	4,635	5,654
Interest	152	152	152	152	152
PBT	2,573	3,169	3,657	4,484	5,502
Tax	404	401	567	807	1,045
Minority Interest	0	0	-	-	-
Core PAT	2,169	2,768	3,090	3,677	4,457
Core PAT Growth (%)	19.3	27.6	11.6	19.0	21.2
EO items (net of tax)	**118**	**(179)**	**-**	**-**	**-**
RPAT	2,287	2,588	3,090	3,677	4,457
RPAT Growth (%)	34.8	13.2	19.4	19.0	21.2
EPS	**14.3**	**18.3**	**20.4**	**24.3**	**29.5**
EPS Growth (%)	19.3	27.6	11.6	19.0	21.2

Source : Company, HDFC Sec Inst Research

Balance sheet

(Rs mn)	FY11	FY12	FY13E	FY14E	FY15E
SOURCES OF FUNDS					
Share Capital	151	151	151	151	151
Reserves	6,747	6,915	7,748	8,932	10,585
Total Shareholders Funds	6,899	7,066	7,899	9,084	10,736
Minority Interest	1	1	1	1	1
Long Term Debt	697	527	527	527	527
Short Term Debt	1,542	1,031	1,031	1,031	1,031
Total Debt	2,239	1,558	1,558	1,558	1,558
Deferred Taxes	137	145	145	145	145
Long Term Provisions	38	39	39	39	39
TOTAL SOURCES OF FUNDS	**9,313**	**8,809**	**9,642**	**10,827**	**12,479**
APPLICATION OF FUNDS					
Net Block	4,845	4,035	3,348	2,582	1,738
CWIP	65	768	400	70	70
Goodwill	8	42	42	42	42
Investments	66	803	803	803	803
LT Loans & Advances	533	279	279	279	279
Inventories	1,234	1,122	1,377	1,611	1,928
Trade Receivables	1,087	1,005	1,223	1,430	1,710
Cash & Equivalents	2,105	2,759	4,141	6,149	8,292
ST Loans & Advances	1,037	952	952	952	952
Other Current Assets	2	7	7	7	7
Current Assets	5,465	5,846	7,701	10,150	12,890
Trade Payables	695	1,082	1,049	1,217	1,460
Other Current Liabilities & Provisions	973	1,882	1,882	1,882	1,882
Current Liabilities	1,668	2,964	2,931	3,099	3,342
Net current Assets	**3,797**	**2,882**	**4,770**	**7,051**	**9,548**
TOTAL APPLICATION OF FUNDS	**9,313**	**8,809**	**9,642**	**10,827**	**12,479**

Source : Company, HDFC Sec Inst Research

Cash flow statement

(Rs mn)	FY11	FY12	FY13E	FY14E	FY15E
Profit before tax	2,573	3,169	3,657	4,484	5,502
Interest, Dep & Others	(72)	(264)	(199)	(361)	(520)
Working Capital Change	(1,236)	700	(506)	(273)	(354)
OPERATING CASH FLOW (a)	**1,265**	**3,605**	**2,952**	**3,850**	**4,628**
Capex	(419)	(1,131)	(182)	(220)	(550)
Free Cash Flow	847	2,473	2,770	3,630	4,078
Investments & Others	789	(195)			
INVESTING CASH FLOW (b)	**370**	**(1,326)**	**(182)**	**(220)**	**(550)**
Debt Issuance	(311)	(683)	-	-	-
Interest	(181)	(152)	(152)	(152)	(152)
Dividend	(531)	(615)	(1,236)	(1,471)	(1,783)
FINANCING CASH FLOW (c)	**(1,022)**	**(1,449)**	**(1,388)**	**(1,623)**	**(1,935)**
Fx effect	**(122)**	**(174)**	**-**	**-**	**-**
NET CASH FLOW (a+b+c)	491	654	1,382	2,008	2,143
Closing Cash	2,105	2,759	4,141	6,149	8,292

Source : Company, HDFC Sec Inst Research

Key ratios

	FY11	FY12	FY13E	FY14E	FY15E
PROFITABILITY (%)					
GPM	58.0	56.9	58.4	58.8	59.0
EBITDA Margin	20.3	20.4	20.2	21.4	21.8
EBIT Margin	19.2	19.1	18.9	19.9	20.2
APAT Margin	17.4	19.0	18.1	18.4	18.5
RoE	34.8	37.1	41.3	43.3	45.0
RoCE	27.3	32.2	38.3	42.3	44.7
EFFICIENCY					
Tax Rate (%)	16	13	16	18	19
Asset Turnover (x)	1.4	1.6	1.8	2.0	2.1
Inventory (days)	30	30	29	29	29
Debtors (days)	27	26	26	26	26
Payables (days)	30	28	28	28	28
Cash Conversion Cycle (days)	27	28	28	27	27
Debt/EBITDA (x)	0.9	0.5	0.5	0.4	0.3
D/E	0.3	0.2	0.2	0.2	0.1
Interest Coverage	15.7	18.3	21.3	26.3	32.0
VALUATION					
EPS (Rs/sh)	14.3	18.3	20.4	24.3	29.5
CEPS (Rs/sh)	16.0	18.3	21.9	26.3	31.9
BV (Rs/sh)	45.6	46.7	52.2	60.0	71.0
P/E	42.0	32.9	29.5	24.8	20.4
P/BV	13.2	12.9	11.5	10.0	8.5
EV/EBITDA	35.9	30.0	25.4	20.0	16.0
EV/Revenues	7.3	6.1	5.1	4.3	3.5
Dividend Yield (%)	0.6	1.3	1.2	1.4	1.7

Source : Company, HDFC Sec Inst Research

Godrej Consumer Products

BUY

INDUSTRY	FMCG
CMP *(as on 19 Dec 2012)*	Rs 731
Target Price	Rs 840
Nifty	5,930
Sensex	19,476
KEY STOCK DATA	
Bloomberg	GCPL IN
No. of Shares (mn)	340
MCap (Rs bn) / ($ mn)	249 / 4,557
6m avg traded value (Rs mn)	159

STOCK PERFORMANCE (%)			
52 Week high / low	Rs 853 / 368		
	3M	6M	12M
Absolute (%)	12.5	31.1	83.3
Relative (%)	7.2	15.6	56.6

SHAREHOLDING PATTERN (%)	
Promoters	63.80
FIs & Local MFs	1.19
FIIs	27.43
Public & Others	7.58

Source : BSE

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Developing a Taste for acquisitions

We are enthused by the company's constant focus on innovations ('HIT' magic paper), new launches ('AER' freshner') and cross pollination (Crème based hair color launched in India) to stimulate growth across all it business segments. The company's '3x3' strategy is yielding rich dividend. Recommend BUY with target price of INR. 840/sh.

Indian business is a 'HIT'

- Household Insecticide (HI) biz, market leader across formats, continues to grow faster than the category (since past 8 quarters). Also, gradual transition from coil to electric will bring in more profitability. This has also led to reduced dependence on low margin soap business (from 41% in FY10 to 22% in 2QFY13).
- Soaps business is constantly delivering resilient growth (4QFY12: 30%, 1QFY13: 42%, 2QFY13: 24%). Re-launch of Cinthol soaps would aid to the growth.
- Hair color, the only category, which has disappointed has witnessed entry into crème based hair color (technology from its business in Argentina) at highly disruptive price (40% lower than competitor). We believe this would help the company gain share from local players. However MNC brands, perceived to be premium, won't be much impacted in near term.

International business provides natural hedge

- GCPL's international business is likely to contribute 50% of total revenue post complete acquisition of DGH (viz. FY14E). Also, in most geography, GCPL business enjoys market leadership position with immense growth opportunities. Integration of DGH and stabilization of LatAm businesses holds key for long term sustained profitability of the company.

Cross pollination the way ahead

- The company plans to derive synergistic benefits by taking its existing products to other geographies: Hair color to Indonesia, HI to South Africa and Argentina, and plans to launch HIT Magic Paper in India. Further, the company plans to expand in neighboring countries of Indonesia and Argentina. Recent attempts of cross pollination include: 1) Launching HI in Nigeria, 2) Bringing AER, HIT magic paper to India, 3) Launch of hair color products from LatAm business in India.

International business integration to hold key

- We like GCPL's aggression in developing categories via new launches and cross pollination of products across geographies. Also, softening in RM may benefit the gross margins in near term. At CMP, the stock is trading at 28.2x and 21.7x on FY14E and FY15E EPS, respectively. Recommend 'BUY' with TP of INR 840/sh (25x FY15E).

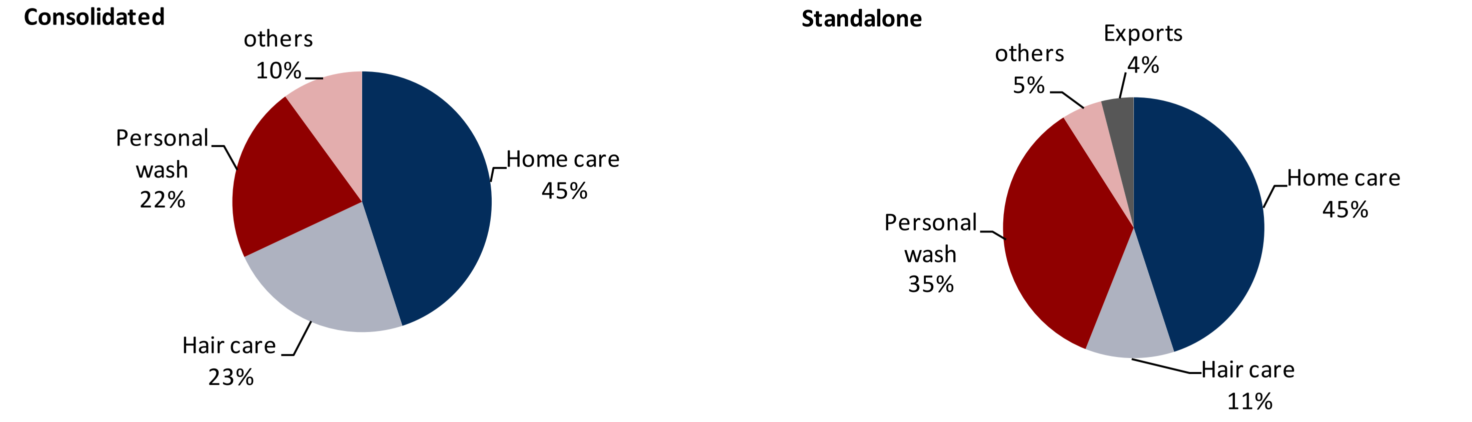
Financial summary

Particulars	FY11	FY12	FY13E	FY14E	FY15E
Net Sales (in Rs Mn)	36,936	48,662	63,776	78,095	92,507
Growth (%)	81.0	31.7	31.1	22.5	18.5
EBIDTA (in Rs Mn)	6,531	8,554	11,129	14,057	17,021
EBIDTA margin (%)	17.7	17.6	17.5	18.0	18.4
Net profit (in Rs Mn)	5,147	7,267	7,032	8,828	11,438
EPS (Rs.)	14.6	15.5	20.7	25.9	33.6
P/E (x)	49.9	47.2	35.3	28.2	21.7
EV/EBITDA	38.9	30.5	23.9	19.1	15.6
RoE (%)	35.3	22.1	21.3	23.1	26.9

Source: Company, HDFC Sec Inst Research

Reduced dependence on low margin soap business (from 41% in FY10 to 22% in 2QFY13)

Sales split

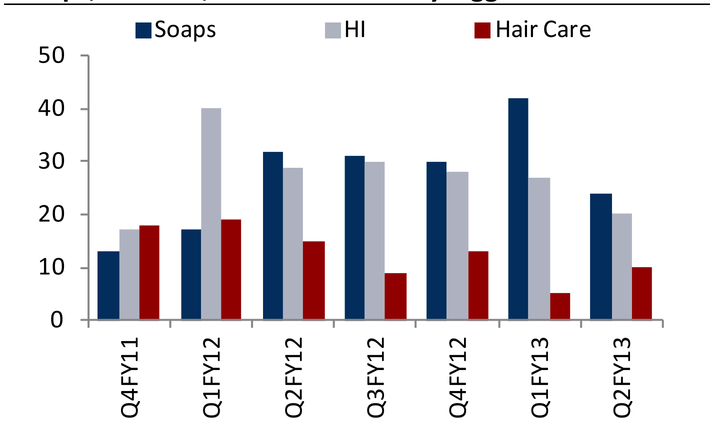


Source : Company, HDFC Sec Inst Research

Increased focus on hair color. Launched crème based hair color @ 40% discount to competitors

Palm oil prices down 33% yoy

Soaps, HI shine; Hair color the only laggard



Source : Company, HDFC Sec Inst Research

Plam oil softening; to aid profitabilty in soaps

Source : Company, HDFC Sec Inst Research

Integration of DGH and stabilization of LatAm businesses holds the key

International business: contributes ~42 to revenues in 2QFY13; 50% by FY14E

Company	Country	Segment	Indicative EBITDA margin	Indicative growth	Contri. to int revenues (%)	Market position	Competitors
Megasari	Indonesia	Insecticides	~20	20	54	2	SC Johnson, Reckitt Benckiser
		Air care				1	SC Johnson (Glade), Ambipur
		Wipes				1	Cussons & J&J
		Cereals					
Issue-Argencos	Argentina	Hair colour	10	22	16	2	Hair care competition in Argentina: L'Oreal and P&G and local players Silkey and BIferdil
		Hair styling					
		Shampoos/ conditioners					
Rapidol	South Africa	Hair colour	18-20	15-18	12	1	L'Oreal's Dark n lovely; L'Oreal and P&G (Caucasian) and L'Oreal and Wella (Ethnic)
Tura	Nigeria	Personal care - soaps, creams, lotions	~13-15	N.A.	0.7	2	PZ Cussons brand's Premier, Joy and Imperial Leather; Dettol, Lux, Lifebuoy, Tetmosol and Delta
Kinky	South Africa	Hair accessories	20	20	1.8	2	Hair relaxers- NN Fem's brand Ozone, Dallas, Apple and Dark n Lovely
DGH	South Africa	Hair accessories	~20	15-17	N.A.	1	Hair extensions- Expressions, Amigos, Nina and Noble.
Cosmetica Nacional	Chile	Hair colour	~20		N.A.	1	L'Oreal, P&G
		Cosmetics				2	

Source : Company, HDFC Sec Inst Research

Sustained re-rating post acquisition of high growth international business and consistent performance in domestic business

International business integration to hold key

- We like GCPL's aggression in developing categories via new launches and cross pollination of products across geographies. Also, softening in RM may benefit the gross margins in near term. At CMP, the stock is trading at 28.2x and 21.7x on FY14E and FY15E EPS, respectively. Recommend 'BUY' rating with TP of INR 840/sh (25x FY15E).

Key risks

- Integration and stabilization of global acquisition
- Currency volatility can impact the cost of dollar denominated debt
- Softening in palm oil prices may lead to revival of unbranded players in soap business

One- year forward price band chart

Source : HDFC Sec Inst Research

Income statement

(Rs mn)	FY11	FY12	FY13E	FY14E	FY15E
Net Sales	36,936	48,662	63,776	78,095	92,507
Growth (%)	**81.0**	**31.7**	**31.1**	**22.5**	**18.5**
Material Expenses	17,072	23,185	30,102	36,783	43,478
Employee Expenses	2,845	3,919	5,262	6,248	7,216
A&P Expenses	4,439	5,905	7,908	9,567	11,332
Other Operating Expenses	6,049	7,098	9,375	11,441	13,460
EBIDTA	**6,531**	**8,554**	**11,129**	**14,057**	**17,021**
EBIDTA (%)	**17.7**	**17.6**	**17.5**	**18.0**	**18.4**
EBIDTA Growth (%)	60.3	31.0	30.1	26.3	21.1
Other Income	522	520	512	513	681
Depreciation	499	644	753	889	983
EBIT	6,554	8,430	10,888	13,681	16,720
Interest	436	658	751	871	891
PBT	6,118	7,771	10,137	12,810	15,828
Tax	1,382	2,261	2,534	3,267	4,036
Minority Interest	-	(245)	(570)	(716)	(354)
Core PAT	4,736	5,266	7,032	8,828	11,438
Core PAT Growth (%)	39.5	11.2	33.6	25.5	29.6
EO items (net of tax)	**411**	**2,002**	**-**	**-**	**-**
RPAT	5,147	7,267	7,032	8,828	11,438
RPAT Growth (%)	51.6	41.2	(3.2)	25.5	29.6
EPS	**14.6**	**15.5**	**20.7**	**25.9**	**33.6**
EPS Growth (%)	32.8	5.7	33.6	25.5	29.6

Source : Company, HDFC Sec Inst Research

Balance sheet

(Rs mn)	FY11	FY12	FY13E	FY14E	FY15E
SOURCES OF FUNDS					
Share Capital	324	340	340	340	340
Reserves	16,928	27,812	32,047	37,363	44,252
Total Shareholders Funds	17,252	28,152	32,387	37,704	44,593
Minority Interest	-	*882*	*1,453*	*2,168*	*2,522*
Long Term Debt	13,420	15,281	2,177	2,377	2,377
Short Term Debt	6,587	3,488	19,592	21,392	21,392
Total Debt	20,008	18,769	21,769	23,769	23,769
Deferred Taxes	14	(5)	(5)	(5)	(5)
Long Term Provisions	176	223	223	223	223
TOTAL SOURCES OF FUNDS	37,449	48,021	55,826	63,859	71,101
APPLICATION OF FUNDS					
Net Block	15,373	15,464	24,111	30,722	33,739
CWIP	80	376	185	200	200
Goodwill	15,404	21,454	21,454	21,454	21,454
Investments	-	-	-	-	-
LT Loans & Advances	1,648	2,463	2,463	2,463	2,463
Inventories	4,394	7,839	7,999	9,774	11,552
Trade Receivables	3,840	4,725	5,595	6,830	8,065
Cash & Equivalents	2,269	6,399	4,272	4,257	7,070
ST Loans & Advances	1,746	1,181	1,181	1,181	1,181
Other Current Assets	146	266	266	266	266
Current Assets	12,395	20,410	19,313	22,307	28,134
Trade Payables	3,331	7,702	7,256	8,844	10,445
Other Current Liabilities & Provisions	4,120	4,444	4,444	4,444	4,444
Current Liabilities	7,451	12,147	11,700	13,288	14,889
Net current Assets	**4,944**	**8,264**	**7,613**	**9,020**	**13,245**
TOTAL APPLICATION OF FUNDS	**37,449**	**48,021**	**55,826**	**63,859**	**71,101**

Source : Company, HDFC Sec Inst Research

Cash flow statement

(Rs mn)	FY11	FY12	FY13E	FY14E	FY15E
Profit before tax	6,118	7,771	10,137	12,810	15,828
Interest, Dep & Others	(309)	911	(1,030)	(1,507)	(2,162)
Working Capital Change	(3,747)	2,241	(1,476)	(1,422)	(1,412)
OPERATING CASH FLOW (a)	**2,061**	**10,923**	**7,630**	**9,881**	**12,254**
Capex	(13,880)	(1,565)	(9,209)	(7,515)	(4,000)
Free Cash Flow	(11,819)	9,358	(1,579)	2,366	8,254
Investments & Others	(9,818)	(6,937)	-	-	-
INVESTING CASH FLOW (b)	**(23,699)**	**(8,502)**	**(9,209)**	**(7,515)**	**(4,000)**
Debt Issuance	24,661	2,047	3,000	2,000	-
Interest	(321)	(422)	(751)	(871)	(891)
Dividend	(1,972)	(1,697)	(2,797)	(3,511)	(4,550)
FINANCING CASH FLOW (c)	**22,369**	**(72)**	**(548)**	**(2,382)**	**(5,441)**
Fx effect			-	-	-
NET CASH FLOW (a+b+c)	731	2,349	(2,127)	(16)	2,813
Closing Cash	2,269	6,399	4,272	4,257	7,070

Source : Company, HDFC Sec Inst Research

Key ratios

	FY11	FY12	FY13E	FY14E	FY15E
PROFITABILITY (%)					
GPM	53.8	52.4	52.8	52.9	53.0
EBITDA Margin	17.7	17.6	17.5	18.0	18.4
EBIT Margin	16.3	16.3	16.3	16.9	17.3
APAT Margin	12.8	10.8	11.0	11.3	12.4
RoE	35.3	22.1	21.3	23.1	26.9
RoCE	25.8	18.5	20.0	22.0	23.8
EFFICIENCY					
Tax Rate (%)	23	29	25	26	26
Asset Turnover (x)	1.6	1.1	1.2	1.3	1.4
Inventory (days)	35	46	46	46	46
Debtors (days)	25	32	32	32	32
Payables (days)	52	50	50	50	51
Cash Conversion Cycle (days)	7	28	27	27	27
Debt/EBITDA (x)	3.1	2.2	2.0	1.7	1.4
D/E	1.2	0.7	0.7	0.6	0.5
Interest Coverage	13.8	12.0	13.8	15.1	18.0
VALUATION					
EPS (Rs/sh)	14.6	15.5	20.7	25.9	33.6
CEPS (Rs/sh)	16.2	17.4	22.9	28.6	36.5
BV (Rs/sh)	53.3	82.7	95.2	110.8	131.0
P/E	49.9	47.2	35.3	28.2	21.7
P/BV	13.7	8.8	7.7	6.6	5.6
EV/EBITDA	38.9	30.5	23.9	19.1	15.6
EV/Revenues	6.9	5.4	4.2	3.4	2.9
Dividend Yield (%)	0.7	1.0	0.9	1.2	1.5

Source : Company, HDFC Sec Inst Research

GlaxoSmithkline Consumer Healthcare

UNDERPERFORM

INDUSTRY	FMCG
CMP *(as on 19 Dec 2012)*	Rs 3,760
Target Price	Rs 3,550
Nifty	5,930
Sensex	19,476

KEY STOCK DATA	
Bloomberg	SKB IN
No. of Shares (mn)	42
MCap (Rs bn) / ($ mn)	158 / 2,898
6m avg traded value (Rs mn)	85

STOCK PERFORMANCE (%)

52 Week high / low	Rs 4,391 / 2,179		
	3M	6M	12M
Absolute (%)	28.4	44.2	53.4
Relative (%)	23.1	28.7	26.8

SHAREHOLDING PATTERN (%)	
Promoters	43.16
FIs & Local MFs	17.45
FIIs	14.45
Public & Others	24.94

Source : BSE

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Valuations discomfort

Post the announcement of open offer, there has been a steep jump in the valuation of the stock which is now trading at 31x CY13E (as against 5-year avg valuation multiple of 20x). Thereby risk reward ratio has turned unfavourable as 1) GSK consumer is single product company (MFD contributes 93% to revenues), 2) FMCG pack is trading at 25x with HUL trading at 30x one year-fwd, 3) New product launches - more failures than success 4) Major food companies (discretionary in nature) have witnessed dampening in volume growth incl. GSK consumer (though it being least impacted). Recommend UPF with a target price of INR 3,550 primarily on valuation concern.

Malted food segment (MFD) rules the roost

A confluence of factors, including low penetration (overall household penetration of 22% and rural penetration being even lower at 11%), incremental rural reach ~10,000 villages (total villages: ~50,000) in year 2012 and launch of specialized packaging in smaller SKUs (INR 5) to capture rural demand, expand its footprint in Northern and Western India which has 34% and 23% market share respectively, successful brand extension leading to premiumisation, high pricing power and strong entry barrier (Nestle, HUL and Dabur have failed to build inroads into the category despite many serious attempts) will lead to sustained long-term consumption growth.

Non-MFD business to provide diversification

Business auxiliary income (distribution of OTC products like Crocin, Eno, Iodex, Sensodyne) has witnessed buoyant growth and we expect it to grow at a robust 20% CAGR for next 2 years. Also, the company, leveraging its strong brand equity, has ventured into other fast growing categories like biscuits, oats, etc in line with its strategy of developing products in the health and wellness segment. However, we expect biscuits and oats would take long to meaningfully contribute to the revenue. Also, the company's track record of new product launches concerns us as Noodles, Sports drink, Nutribar, and glucose powder segment failed to enthuse consumers.

Valuations looks stretched

At current market price, the stock is trading at 31x CY13E and 26x CY14E. Post the announcement of open offer, there has been a steep jump in the valuation of the stock which is now trading at 31x CY13E (as against 5 year avg valuation multiple of 20x). On account of sustained revenue growth and profitability we expect it to trade at higher valuation than 5 year avg. Recommend UPF on the stock with TP of INR 3,550 (25x CY14E EPS).

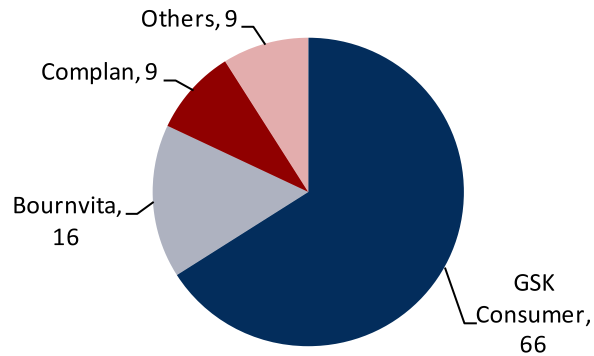
Financial summary

Particulars	CY10	CY11	CY12E	CY13E	CY14E
Net Sales (in Rs Mn)	23,685	27,649	31,710	36,879	43,214
Growth (%)	19.8	16.7	14.7	16.3	17.2
EBIDTA (in Rs Mn)	4,365	5,043	5,939	6,970	8,279
EBIDTA margin (%)	18.4	18.2	18.7	18.9	19.2
Net profit (in Rs Mn)	2,999	3,552	4,372	5,085	6,010
EPS (Rs.)	71.3	84.4	104.0	120.9	142.9
P/E (x)	52.7	44.5	36.2	31.1	26.3
EV/EBITDA	34.0	29.2	24.6	20.9	17.1
RoE (%)	32.8	34.9	35.8	34.5	33.6

Source : Company, HDFC Sec Inst Research

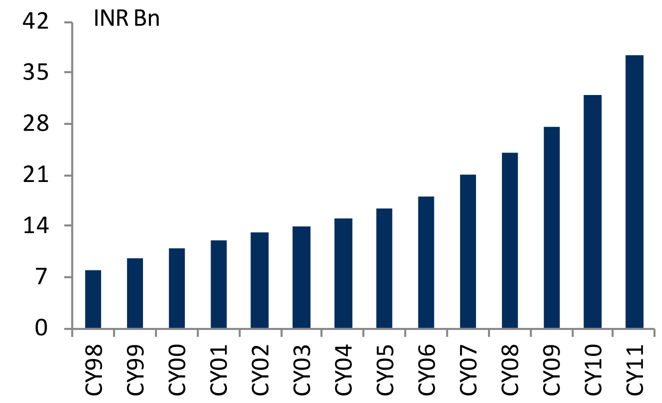
Maintained leadership in MFD category despite failed attempts to build inroads by HUL, Nestle and Dabur

GSK consumer rules the roost in MFD



Source: Company, HDFC Sec Inst Research

Indian MFD market size



Source: Company, HDFC Sec Inst Research

Company's track record of new product launches concerns us as Noodles, Sports drink, Nutribar, and glucose powder segment failed to enthuse consumers

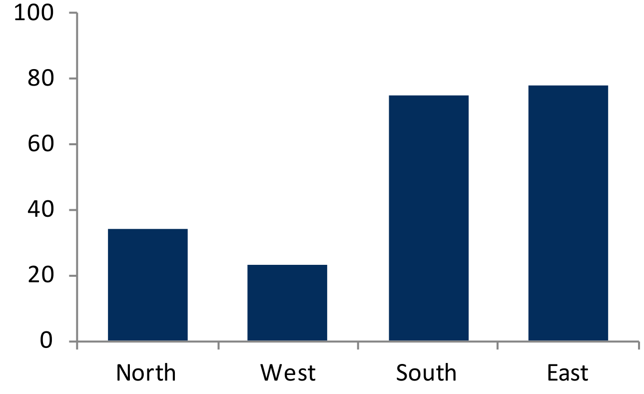
But diversification not in close proximity??

	CY06	CY07	CY08	CY09	CY10	CY11	CY12E	CY13E	CY14E
Malted/cereal/protein based food	95.3	96.0	96.0	95.0	94.0	93.8	93.5	93.0	92.2
Biscuits and snack food	4.1	3.5	3.5	4.4	5.6	6.0	6.2	6.7	7.6
Others	0.7	0.6	0.5	0.6	0.5	0.3	0.2	0.2	0.2

Source: Company, HDFC Sec Inst Research

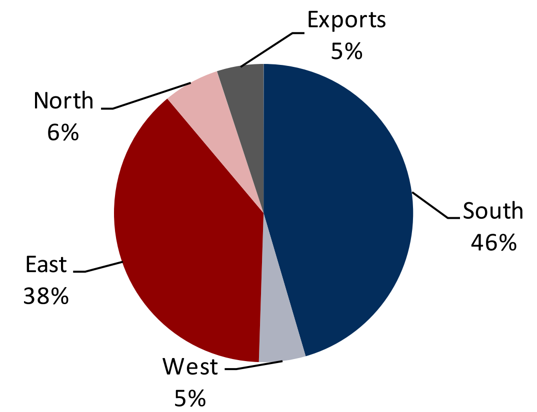
Expanding footprint in North and West to reap rich dividend…

MFD volume share



Source : Company, HDFC Sec Inst Research

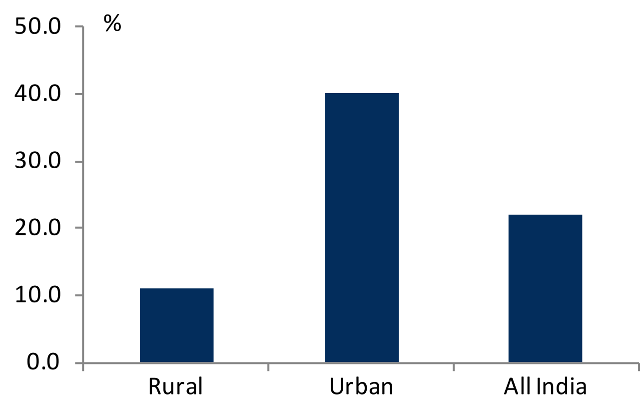
Regional split



Source : Company, HDFC Sec Inst Research

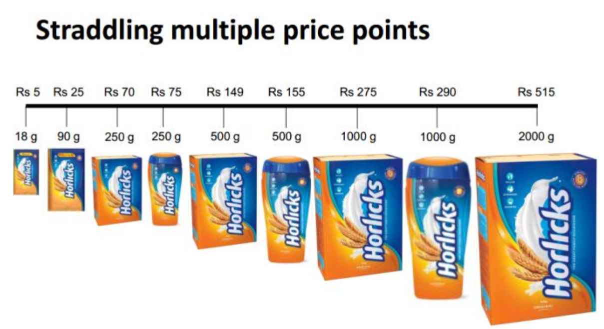
Rural India open canvas for HFD

MFD penetration



Source : Company, HDFC Sec Inst Research

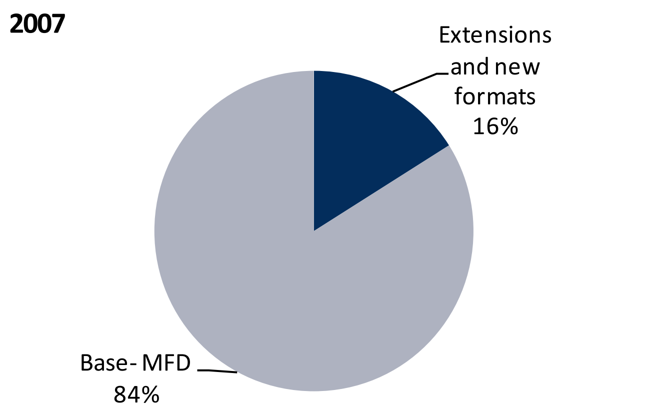
Horlicks available in recruiter pack (INR 5)



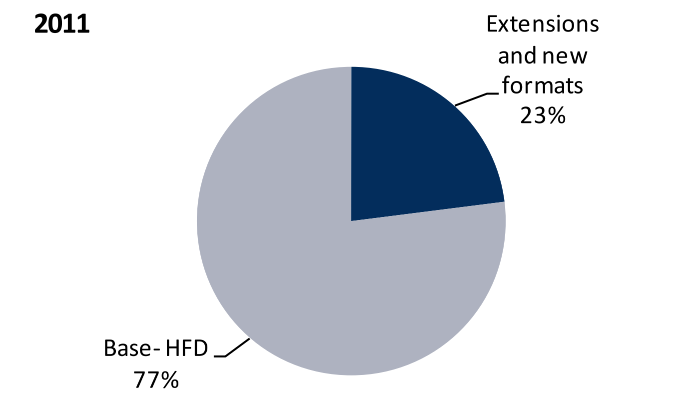
Source : Company, HDFC Sec Inst Research

Heading towards premiumisation

Increased contribution by value added product like Junior, Mothers, Women and Gold Horlicks



Source : Company, HDFC Sec Inst Research



Source : Company, HDFC Sec Inst Research

GSK Consumer is trading at 50% premium to its 5-year average valuation

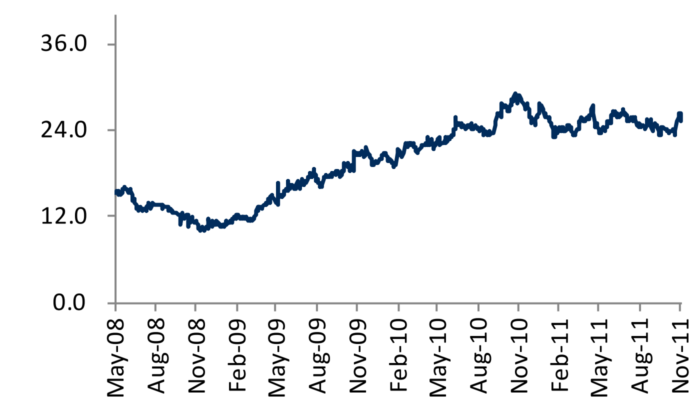
Valuations

- At current market price, the stock is trading at 31x CY13E and 26x CY14E. Post the announcement of open offer, there has been a steep jump in the valuation of the stock which is now trading at 31x CY13E (as against 5 year avg valuation multiple of 20x). On account of sustained revenue growth and profitability we expect it to trade at higher valuation than 5 year avg. Recommend UPF on the stock with TP of INR 3,550 (25x CY14E EPS).

Key risks

- Higher than expected growth
- The company derives larger share of revenue from non-MFD business

GSK consumer's one-year forward price band chart



Source : HDFC Sec Inst Research

Income statement

(Rs mn)	CY10	CY11	CY12E	CY13E	CY14E
Net Sales	23,685	27,649	31,710	36,879	43,214
Growth (%)	19.8	16.7	14.7	16.3	17.2
Material Expenses	8,649	10,227	11,588	13,411	15,723
Employee Expenses	2,297	2,584	3,000	3,489	4,085
A&P Expenses	3,706	4,373	5,016	5,881	6,885
Other Operating Expenses	4,668	5,421	6,166	7,128	8,241
EBIDTA	4,365	5,043	5,939	6,970	8,279
EBIDTA (%)	18.4	18.2	18.7	18.9	19.2
EBIDTA Growth (%)	20.5	15.5	17.8	17.4	18.8
Other Income	576	854	1,009	1,146	1,306
Depreciation	397	460	385	484	568
EBIT	4,544	5,437	6,564	7,631	9,017
Interest	26	35	38	42	46
PBT	4,518	5,402	6,526	7,589	8,971
Tax	1,520	1,851	2,154	2,504	2,960
Minority Interest	0	0	-	-	-
Core PAT	2,999	3,552	4,372	5,085	6,010
Core PAT Growth (%)	28.8	18.4	23.1	16.3	18.2
EO items (net of tax)					
RPAT	2,999	3,552	4,372	5,085	6,010
RPAT Growth (%)	28.8	18.4	23.1	16.3	18.2
EPS	71.3	84.4	104.0	120.9	142.9
EPS Growth (%)	28.8	18.4	23.1	16.3	18.2

Source : Company, HDFC Sec Inst Research

Balance sheet

(Rs mn)	CY10	CY11	CY12E	CY13E	CY14E
SOURCES OF FUNDS					
Share Capital	421	421	421	421	421
Reserves	9,180	11,021	13,347	16,052	19,658
Total Shareholders Funds	**9,600**	**11,442**	**13,768**	**16,473**	**20,079**
TOTAL SOURCES OF FUNDS	9,600	11,442	13,768	16,473	20,079
APPLICATION OF FUNDS					
Net Block	2,023	2,007	2,872	5,088	4,920
CWIP	1,083	1,711	2,000	1,800	1,800
Inventories	3,120	3,700	3,887	4,506	5,264
Trade Receivables	505	992	847	974	1,129
Cash & Equivalents	9,761	10,797	11,749	12,742	16,879
ST Loans & Advances	501	721	721	721	721
Other Current Assets	344	492	492	492	492
Current Assets	14,231	16,701	17,695	19,434	24,484
Trade Payables	4,704	6,663	6,486	7,536	8,812
Other Current Liabilities & Provisions	3,300	2,712	2,712	2,712	2,712
Current Liabilities	8,004	9,376	9,199	10,249	11,525
Net current Assets	6,227	7,325	8,497	9,186	12,960
Misc Expenses	267	399	399	399	399
TOTAL APPLICATION OF FUNDS	9,600	11,442	13,768	16,473	20,079

Source : Company, HDFC Sec Inst Research

Cash flow statement

(Rs mn)	CY10	CY11	CY12E	CY13E	CY14E
Profit before tax	4,518	5,402	6,526	7,589	8,971
Interest, Dep & Others	(1,646)	(1,977)	(1,731)	(1,978)	(2,346)
Working Capital Change	390	447	(219)	304	363
OPERATING CASH FLOW (a)	**3,262**	**3,872**	**4,576**	**5,914**	**6,987**
Capex	(1,200)	(975)	(1,539)	(2,500)	(400)
Free Cash Flow	2,062	2,897	3,037	3,414	6,587
Investments & Others	406	613	-	-	-
INVESTING CASH FLOW (b)	**(794)**	**(362)**	**(1,539)**	**(2,500)**	**(400)**
Debt Issuance					
Interest	(25)	(29)	(38)	(42)	(46)
Dividend	(881)	(2,446)	(2,046)	(2,380)	(2,404)
FINANCING CASH FLOW (c)	**(905)**	**(2,475)**	**(2,084)**	**(2,422)**	**(2,450)**
Fx effect	-	-	-	-	-
NET CASH FLOW (a+b+c)	1,563	1,035	952	993	4,137
Closing Cash	9,761	10,797	11,749	12,742	16,879

Source : Company, HDFC Sec Inst Research

Key ratios

	CY10	CY11	CY12E	CY13E	CY14E
PROFITABILITY (%)					
GPM	63.5	63.0	63.5	63.6	63.6
EBITDA Margin	18.4	18.2	18.7	18.9	19.2
EBIT Margin	16.8	16.6	17.5	17.6	17.8
APAT Margin	12.7	12.8	13.8	13.8	13.9
RoE	32.8	34.9	35.8	34.5	33.6
RoCE	42.6	43.6	44.1	42.9	42.2
EFFICIENCY					
Tax Rate (%)	34	34	33	33	33
Asset Turnover (x)	2.5	2.6	2.5	2.4	2.4
Inventory (days)	46	46	46	46	46
Debtors (days)	6	10	10	10	10
Payables (days)	80	92	92	92	92
Cash Conversion Cycle (days)	(28)	(35)	(36)	(36)	(36)
Debt/EBITDA (x)	-	-	-	-	-
D/E	-	-	-	-	-
Interest Coverage	152.6	-	-	-	-
VALUATION					
EPS (Rs/sh)	71.3	84.4	104.0	120.9	142.9
CEPS (Rs/sh)	80.7	95.4	113.1	132.4	156.4
BV (Rs/sh)	228.3	272.1	327.4	391.7	477.4
P/E	52.7	44.5	36.2	31.1	26.3
P/BV	16.5	13.8	11.5	9.6	7.9
EV/EBITDA	34.0	29.2	24.6	20.9	17.1
EV/Revenues	6.4	5.5	4.8	4.1	3.4
Dividend Yield (%)	1.3	0.9	1.1	1.3	1.5

Source : Company, HDFC Sec Inst Research

Hindustan Unilever

OUTPERFORM

INDUSTRY	FMCG
CMP *(as on 19 Dec 2012)*	Rs 523
Target Price	Rs 550
Nifty	5,930
Sensex	19,476
KEY STOCK DATA	
Bloomberg	HUVR IN
No. of Shares (mn)	2,162
MCap (Rs bn) / ($ mn)	1,131 / 20,723
6m avg traded value (Rs mn)	

STOCK PERFORMANCE (%)			
52 Week high / low	Rs 572 / 369		
	3M	6M	12M
Absolute (%)	(0.3)	18.1	34.0
Relative (%)	(5.6)	2.6	7.3

SHAREHOLDING PATTERN (%)	
Promoters	52.49
FIs & Local MFs	9.03
FIIs	21.11
Public & Others	17.37

Source : BSE

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Well placed to beat slowdown

Brand creator credited with transforming Vaseline from heel cream to body lotion we expect HUL to be foremost beneficiary of premiumisation. This complemented by its go-to-market capability (retail reach: 6.5mn; direct reach: >2mn) gives it strong competitive advantage. Recent commissioning of R&D centre at Bangalore underscores its commitment of investing in categories of future. Personal Product (PP) likely to surpass Soap and Detergent (S&D) in contribution to revenue in next 7 years as the company launches exciting bouquet of new products. Also, a sharp correction in RM prices enlivens better earning visibility with HUL having effected most of the price hikes. Recommend OPF with TP of INR. 550/sh.

PP contribution to surpass S&D in 7 years

- PP would continue to remain crux of HUL's growth strategy as we expect PP to contribute ~41% (from current 30%) in next 7 years and surpass S&D in terms of contribution to the net revenues. This would mean higher EBITDA margins (by 150-200bps).
- This would be aided by HUL's go-to-market capability, premiumisation strategy led by product innovation and strong product pipeline.

Few concerns to keep stock under pressure

- High single digit volume growth in S&D category not structural in nature.
- PP category impacted on account of deceleration in premiumisation
- Discretionary categories (Food, water purifier) facing pressure in near term
- As per the management, tax rate to jump to 24-25% (by 200bps) in FY13 and further to marginal tax rate going ahead

Valuations : derating unlikley

- There might be near term pressure on earnings however strong growth visibility in PP (higher margins) hints at sustained higher valuation (compared to 5–year average). Also, softening in palm oil prices may benefit the gross margins in near term. At CMP, the stock is trading at 30x and 27x FY14E and FY15E respectively. We recommend OPF with one year TP of INR 550/sh (28x FY15E).

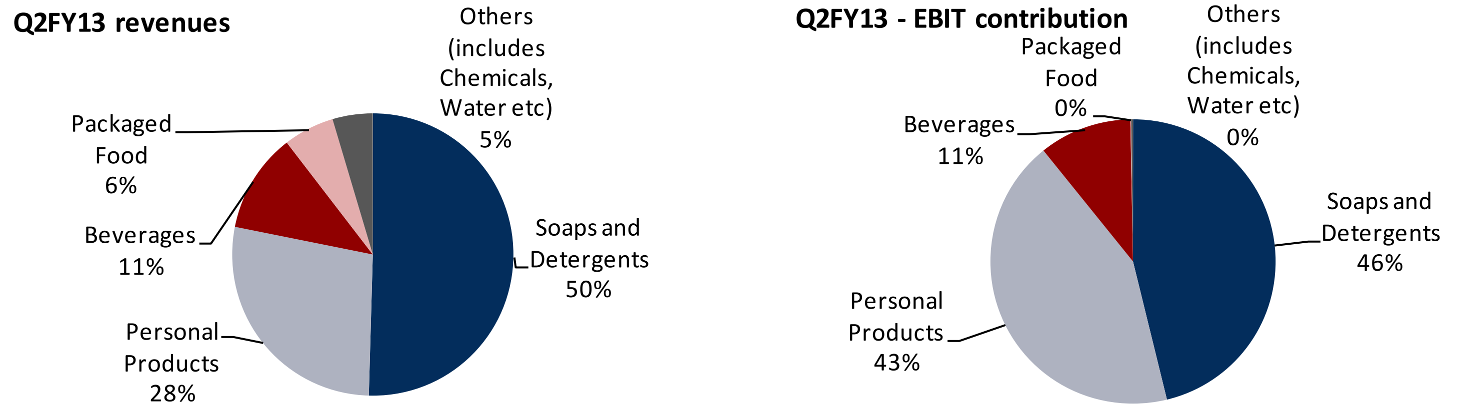
Financial summary

Particulars	FY11	FY12	FY13E	FY14E	FY15E
Net Sales (in Rs Mn)	200,226	234,363	267,720	304,990	347,905
Growth (%)	12.7	17.0	14.2	13.9	14.1
EBIDTA (in Rs Mn)	27,112	34,836	41,436	48,054	55,764
EBIDTA margin (%)	13.5	14.9	15.5	15.8	16.0
Net profit (in Rs Mn)	22,961	27,907	33,158	37,879	42,043
EPS (Rs.)	9.5	12.4	15.3	17.5	19.5
P/E (x)	55.0	42.2	34.1	29.8	26.9
EV/EBITDA	41.0	31.2	26.0	22.2	18.8
RoE (%)	77.2	83.6	78.7	70.5	63.0

Source: Company, HDFC Sec Inst Research

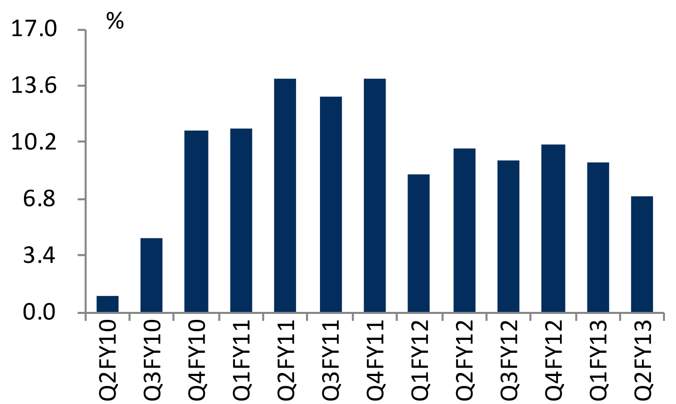
PP contribution to surpass S&D in 7 years

Diversified portfolio; well placed to beat slowdown



Source : Company, HDFC Sec Inst Research

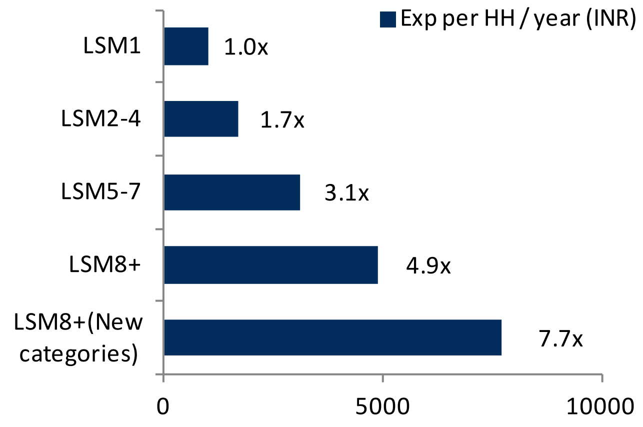
Volume growth reslient despite tough environment



Source : Company, HDFC Sec Inst Research

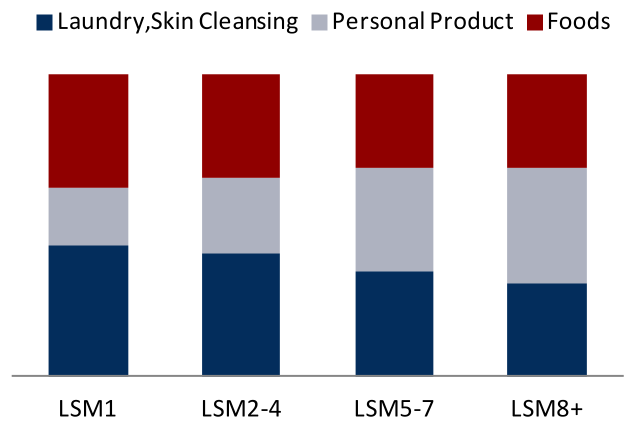
Rising income to favour personal products and foods

Household (HH) expenditure per year



Source : Company, HDFC Sec Inst Research

Personal care / Foods explosion



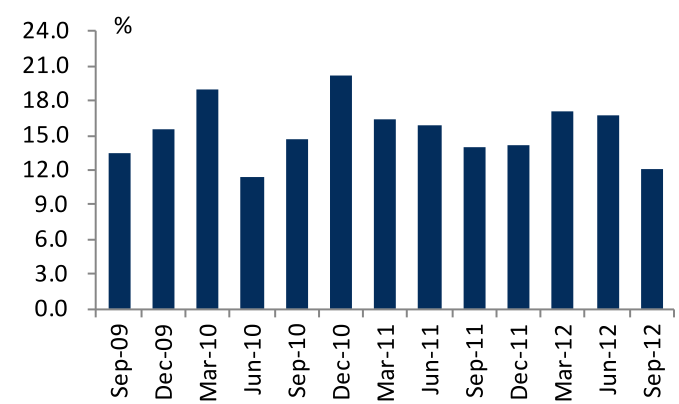
Source : Company, HDFC Sec Inst Research

PP to contribute ~41% (from current 30%) in next 7 years

PP contribution to surpass S&D in 7 years

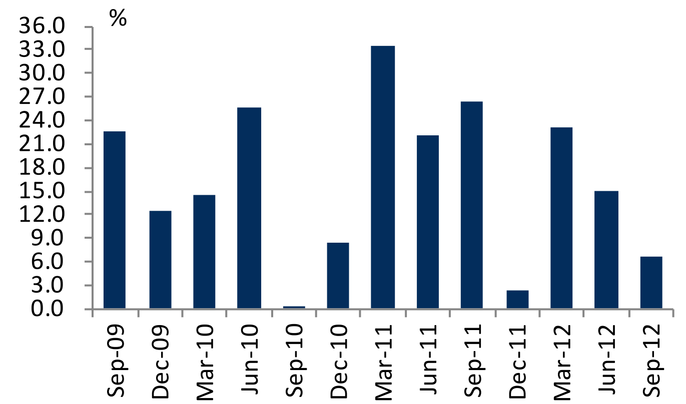
- PP would continue to remain crux of HUL's growth strategy as we expect PP to contribute ~41% (from current 30%) in next 7 years and surpass S&D in terms of contribution to the net revenues. Thereby blended EBITDA margins can improve by 150-200bps (14.9% in FY12) in next 7 years.
- However, in near term due to cut in discretionary spending we might witness some pressure on personal product. Also, premiumisation trend might witness temporary slowdown.

PP - moderation in growth partly triggered by cut in discretionary spend



Source : Company, HDFC Sec Inst Research

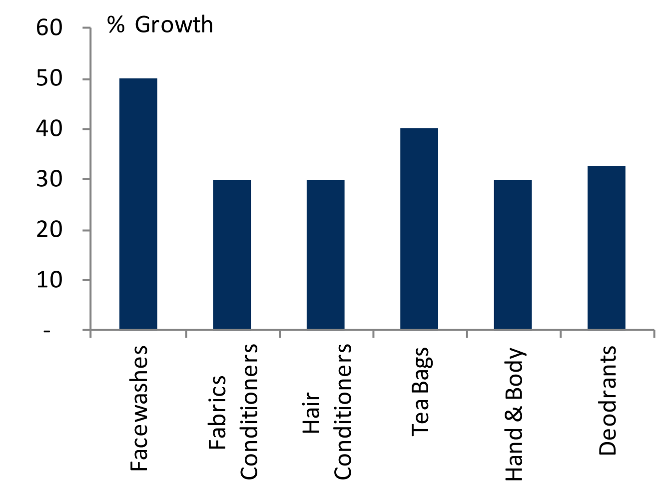
PP EBIT growth



Source : Company, HDFC Sec Inst Research

Presence in nascent but high growth categories

Presence in categories of future

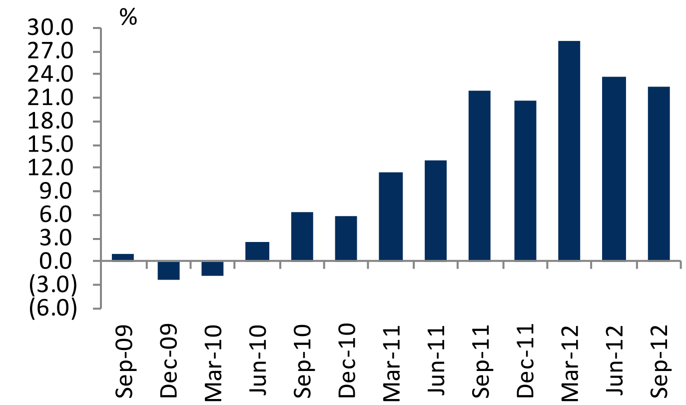


Source : Company, HDFC Sec Inst Research

High single digit volume growth in S&D category not structural in nature

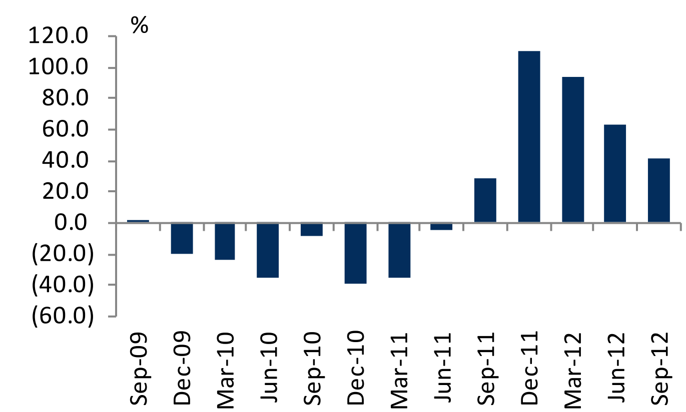
- As adverse base starts kicking in and price hikes becomes incrementally difficult (due to tough economic scenario) we expect value growth in S&D to moderate in ensuing quarters. Also, the pace of premiumisation has decelerated. As per the management, high single digit volume growth in S&D category not structural in nature. Thereby we expect high margin PP to overtake S&D in terms of contribution to revenues in next 7 years.

S&D - surprised since past 5 qtrs; VOLUME GROWTH TO WANE in longer term



Source : Company, HDFC Sec Inst Research

S&D EBIT growth



Source : Company, HDFC Sec Inst Research

Retail reach: 6.5mn; direct reach: >2mn

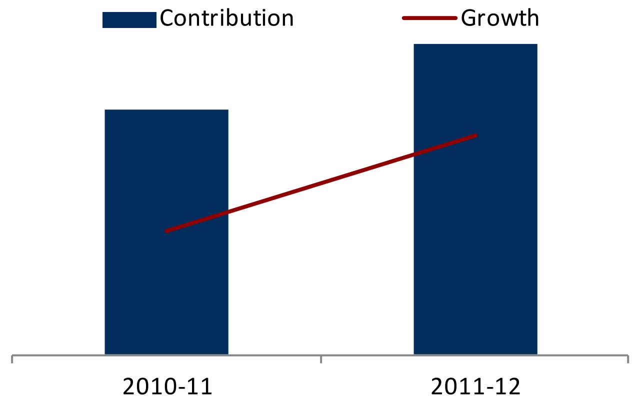
MT can contribute to 1-2% additional growth

Tax rate to jump to 24-25% (by 200bps) in FY13 and further to marginal tax rate going ahead

Distribution- way ahead of competition

The company has towering presence across 6.5mn outlets of which 2mn are direct reach. Most direct reach is in urban area with most urban stores being perfect stores. Also, company is constantly working towards consolidating its position in modern trade (MT) channel with MT growing faster for HUL than other channels. As FDI gets cleared in multi brand retail, MT will gain more relevance and can have immense impact (1-2% extra growth) on the sales growth of the company going forward.

MT contribution on the rise

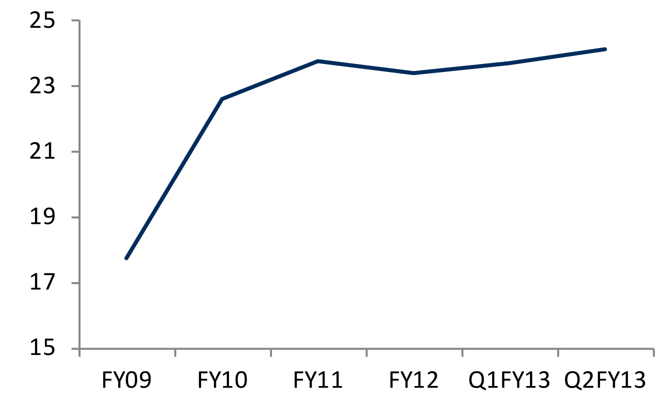


Source : Company, HDFC Sec Inst Research

Tax rate jump; to impact profitability

As income tax benefit for manufacturing plant in Baddi declines, tax rate to jump to 24-25% (by 200bps) in FY13 and further to marginal tax rate going ahead.

Tax rate trend



Source : Company, HDFC Sec Inst Research

Strong growth visibility in PP (higher margins) hints at sustained higher valuation

Valuations : derating unlikley

- There might be near term pressure on earnings however strong growth visibility in PP (higher margins) hints at sustained higher valuation (compared to 5–year average). Also, softening in palm oil prices may benefit the gross margins in near term. At CMP, the stock is trading at 30x and 27x FY14E and FY15E respectively. We recommend OPF rating with one year TP of INR 550/sh (28x FY15E).

Key risks

- Softening in palm oil prices may lead to revival of unbranded players in soap business
- Increased royalty in Unilever Indonesia (from 3.5% to 5%) by parent adds to the risk as HUL pays low royalty (1.35% of net sales). This is lowest amongst MNC peers in India

One-year forward price band chart

Source : HDFC Sec Inst Research

Income statement

(Rs mn)	FY11	FY12	FY13E	FY14E	FY15E
Net Sales	200,226	234,363	267,720	304,990	347,905
Growth (%)	**12.7**	**17.0**	**14.2**	**13.9**	**14.1**
Material Expenses	101,820	125,017	139,462	158,393	179,733
Employee Expenses	10,149	12,009	13,868	15,890	18,126
A&P Expenses	27,971	26,970	32,796	36,904	42,096
Other Operating Expenses	33,174	35,532	40,158	45,748	52,186
EBIDTA	**27,112**	**34,836**	**41,436**	**48,054**	**55,764**
EBIDTA (%)	**13.5**	**14.9**	**15.5**	**15.8**	**16.0**
EBIDTA Growth (%)	5.3	28.5	18.9	16.0	16.0
Other Income	2,552	2,596	4,966	6,208	6,831
Depreciation	**2,293**	**2,335**	**2,615**	**2,889**	**3,164**
EBIT	27,371	35,096	43,788	51,373	59,431
Interest	10	17	4	5	5
PBT	27,361	35,080	43,784	51,368	59,426
Tax	6,503	8,215	10,508	13,356	17,233
Minority Interest	(106)	(95)	(117)	(134)	(149)
Core PAT	20,752	26,770	33,158	37,879	42,043
Core PAT Growth (%)	(1.0)	29.0	23.9	14.2	11.0
EO items (net of tax)	**2,208**	**1,137**	**-**	**-**	**-**
RPAT	22,961	27,907	33,158	37,879	42,043
RPAT Growth (%)	(6.1)	21.5	18.8	14.2	11.0
EPS	**9.5**	**12.4**	**15.3**	**17.5**	**19.5**
EPS Growth (%)	(1.6)	30.3	23.9	14.2	11.0

Source : Company, HDFC Sec Inst Research

Balance sheet

(Rs mn)	FY11	FY12	FY13E	FY14E	FY15E
SOURCES OF FUNDS					
Share Capital	2,160	2,162	2,162	2,162	2,162
Reserves	25,190	34,649	45,423	57,731	71,392
Total Shareholders Funds	27,350	36,811	47,585	59,893	73,554
Minority Interest	*146*	*183*	*300*	*435*	*583*
Deferred Taxes	(2,074)	(2,099)	(2,099)	(2,099)	(2,099)
Long Term Provisions	6,737	6,743	6,743	6,743	6,743
TOTAL SOURCES OF FUNDS	**32,158**	**41,638**	**52,529**	**64,971**	**78,781**
APPLICATION OF FUNDS					
Net Block	22,235	22,629	24,514	26,125	27,461
CWIP	2,892	2,276	3,300	3,500	3,500
Investments	11,885	23,222	23,222	23,222	23,222
LT Loans & Advances	4,043	3,808	3,808	3,808	3,808
Inventories	28,757	26,674	31,587	35,900	40,856
Trade Receivables	9,633	8,567	10,322	11,675	13,223
Cash & Equivalents	17,757	19,964	29,170	41,835	56,658
ST Loans & Advances	3,826	4,461	4,461	4,461	4,461
Other Current Assets	378	372	372	372	372
Current Assets	60,350	60,039	75,912	94,244	115,571
Trade Payables	50,790	48,439	56,330	64,030	72,884
Other Current Liabilities & Provisions	18,456	21,897	21,897	21,897	21,897
Current Liabilities	69,246	70,336	78,227	85,927	94,781
Net current Assets	**(8,896)**	**(10,297)**	**(2,315)**	**8,316**	**20,790**
TOTAL APPLICATION OF FUNDS	**32,158**	**41,638**	**52,529**	**64,971**	**78,781**

Source : Company, HDFC Sec Inst Research

Cash flow statement

(Rs mn)	FY11	FY12	FY13E	FY14E	FY15E
Profit before tax	27,361	35,080	43,784	51,368	59,426
Interest, Dep & Others	(6,738)	(7,033)	(7,890)	(10,462)	(14,065)
Working Capital Change	(1,521)	(7,545)	200	1,834	2,350
OPERATING CASH FLOW (a)	**19,102**	**20,502**	**36,094**	**42,740**	**47,711**
Capex	(3,106)	(2,734)	(4,500)	(4,500)	(4,500)
Free Cash Flow	15,996	17,768	31,594	38,240	43,211
Investments & Others	4,683	(2,401)			
INVESTING CASH FLOW (b)	**1,577**	**(5,134)**	**(4,500)**	**(4,500)**	**(4,500)**
Debt Issuance	(6,301)	336	0	0	0
Interest	(10)	(17)	(4)	(5)	(5)
Dividend	(16,619)	(8,762)	(22,384)	(25,571)	(28,382)
FINANCING CASH FLOW (c)	**(22,930)**	**(8,442)**	**(22,388)**	**(25,576)**	**(28,387)**
Fx effect	**0**	**0**	**0**	**0**	**0**
NET CASH FLOW (a+b+c)	**(2,251)**	**6,925**	**9,206**	**12,665**	**14,823**
Closing Cash	17,757	19,964	29,170	41,835	56,658

Source : Company, HDFC Sec Inst Research

Key ratios

	FY11	FY12	FY13E	FY14E	FY15E
PROFITABILITY (%)					
GPM	49.1	46.7	47.9	48.1	48.3
EBITDA Margin	13.5	14.9	15.5	15.8	16.0
EBIT Margin	12.4	13.9	14.5	14.8	15.1
APAT Margin	10.4	11.5	12.4	12.5	12.1
RoE	77.2	83.6	78.7	70.5	63.0
RoCE	153.0	168.0	162.7	127.1	108.1
EFFICIENCY					
Tax Rate (%)	24	23	24	26	29
Asset Turnover (x)	7.1	6.4	5.7	5.2	4.8
Inventory (days)	47	43	43	43	43
Debtors (days)	15	14	14	14	14
Payables (days)	110	91	91	91	91
Cash Conversion Cycle (days)	-48	-33	-34	-34	-34
Debt/EBITDA (x)	0.0	0.0	0.0	0.0	0.0
D/E	0.0	0.0	0.0	0.0	0.0
Interest Coverage	2457.3	1969.7	9705.4	9033.0	10520.0
VALUATION					
EPS (Rs/sh)	9.5	12.4	15.3	17.5	19.5
CEPS (Rs/sh)	10.6	13.5	16.6	18.9	21.0
BV (Rs/sh)	12.6	17.1	22.2	27.9	34.3
P/E	55.0	42.2	34.1	29.8	26.9
P/BV	41.5	30.6	23.6	18.7	15.2
EV/EBITDA	41.0	31.2	26.0	22.2	18.8
EV/Revenues	5.5	4.6	4.0	3.5	3.0
Dividend Yield (%)	1.2	1.4	1.7	1.9	2.2

Source : Company, HDFC Sec Inst Research

ITC

BUY

INDUSTRY	FMCG
CMP *(as on 19 Dec 2012)*	**Rs 290**
Target Price	**Rs 341**
Nifty	5,930
Sensex	19,476
KEY STOCK DATA	
Bloomberg	ITC IN
No. of Shares (mn)	7,871
MCap (Rs bn) / ($ mn)	2,283 / 41,853
6m avg traded value (Rs mn)	1,542

STOCK PERFORMANCE (%)

52 Week high / low **Rs 307 / 192**

	3M	6M	12M
Absolute (%)	14.1	16.3	46.9
Relative (%)	8.8	0.8	20.2

SHAREHOLDING PATTERN (%)	
Promoters	-
FIs & Local MFs	33.78
FIIs	18.32
Public & Others	47.90

Source : BSE

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Regulatory concerns overplayed

Empirically, it is witnessed that in India it takes longer to enforce a law with regards to cigs (witnessed in implementing pictorial warning) as it contributes ~9% to indirect tax kitty. Global concern related to plain packaging, though accurate, we remain less bothered about it in near to medium term. We believe Indian cig to witness a vol growth of ~4-5% (bidi loosing share + natural growth + ban on chewing tobacco) over longer term as 64mm cigs provides an alternative to illicit cigs. FMCG business provides most exciting opportunity with it very near to break-even (expect to breakeven in 4QFY13E). We have conviction BUY on the stock with TP price of INR. 341.

Cig vol. to grow at ~4-5% CAGR over long term

With growing population, premiumisation (gradual shift from beedi to cigs) and regulatory ban on chewing tobacco in major states we anticipate cig volumes to grow at 4-5% CAGR over long term. Also, presence across price points and superior brand salience has helped ITC to gain share among domestic cig players (VST witnessed volume decline of ~15% yoy vis-à-vis growth of 1-2% yoy by ITC in 2QFY13). Furthermore, launch of the 64mm category can provide the volume push.

We also believe that plain packaging norm (adopted in Australia) is a legitimate long-term concern however, we remain less bothered about it in near to medium term as 1) Cigs constitute only 15% of total tobacco consumption, 2) India is stick based market, 3) general slow decision taking by government. We have experienced it while implementation of pictorial warning which took around 2 years after it was announced. We expect disruptive tax environment for cig in India to continue in absence of which volume growth to exceed estimates of 4-5%.

FMCG business to break even in 4QFY13

FMCG business reported negative EBIT of INR 303mn in 2QFY13E (down from INR 559mn EBIT loss in 2QFY12). We expect it to break even in 4QFY13E. Also, its food business (67% of FMCG business) is already profitable with its brands growing faster than category. We are enthused by its continuous investment in the brand building and plan to enter new categories (dairy, chocolates, etc).

Valuations

We Recommend BUY with SOTP based one year target price of INR 341. This implies 25x FY15E EPS which we believe is justified as FMCG likely to break even in 4QFY13 and its ability to retain margin in cigarettes in difficult scenario.

Financial summary

Particulars	FY11	FY12	FY13E	FY14E	FY15E
Net Sales (in Rs Mn)	225,747	265,518	310,555	364,775	431,515
Growth (%)	16.3	17.6	17.0	17.5	18.3
EBIDTA (in Rs Mn)	76,688	92,098	111,539	131,847	157,350
EBIDTA margin (%)	34.0	34.7	35.9	36.1	36.5
Net profit (in Rs Mn)	50,179	62,581	75,538	89,324	106,524
EPS (Rs.)	6.5	8.0	9.6	11.4	13.5
P/E (x)	44.7	36.5	30.2	25.5	21.4
EV/EBITDA	28.3	23.7	19.5	16.5	13.8
RoE (%)	35.0	35.6	37.5	39.8	42.6

Source: Company, HDFC Sec Inst Research

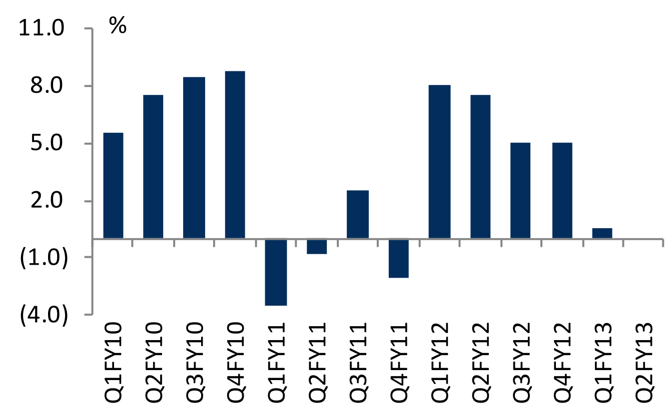
Despite steep price hike taken by ITC (weighted average of 12 -13%), the company's volume has remained flat in 2QFY13

Test-marketing 64mm cigarettes in Bihar and Uttar Pradesh

Cig vol. to grow at 4-5% CAGR over long term

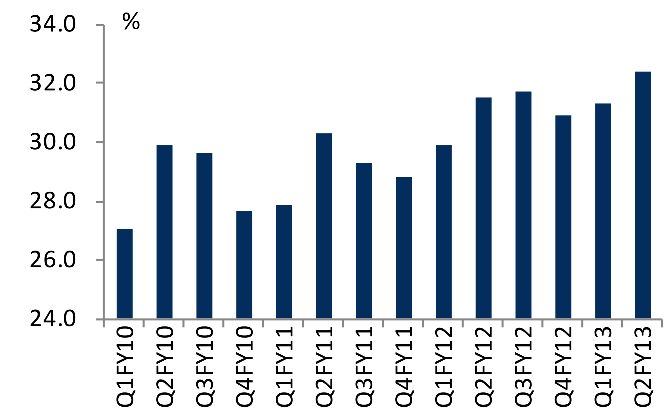
- With growing population, premiumisation (gradual shift from from beedi to cigs) and regulatory ban on chewing tobacco in major states we anticipate cigarette to grow at 4-5% volume CAGR over next 10 years (volume CAGR: ~4% over the past 10 years).
- ITC's superior brand salience and pricing power has come to the fore. Despite steep price hike taken by ITC (weighted average of 12 -13%) to offset the excise duty increase of 21%, the company's volume has remained flat in 2QFY13 as against the consensus estimate of negative volume growth.
- During the same period, VST witnessed volume decline of 15% yoy impacted by price hike as it increased its largest selling INR 2 cigarette to INR 2.5 (to offset excise duty hike).

Cig volume growth



Source : Company, HDFC Sec Inst Research

Cig EBIT margin maintained despite difficult tax scenario



Source : Company, HDFC Sec Inst Research

Introduction of 64mm cigarette category by government; ITC to benefit the most

- To take advantage of the new category introduced in the Union Budget (sticks less than 65 mm in length), the company is test-marketing 64mm cigarettes in Bihar and Uttar Pradesh. This should support volumes as these cigarettes are priced at Rs 2 per Capstan stick and Rs 2.50 per Gold Flake stick.
- This move was expected as there is a tax differential of 40% between the 64-mm and the 69-mm cigarettes. ITC's distribution muscle could help it wrest some market share from the illegal cigarette segment.
- ITC's 64mm cigarettes at INR2-2.5/stick, can challenge the 69mm cigarette of VST and Godfrey.
- Also, the tax benefit provided to 64mm cigs, makes the 64 mm size cigarette highly profitable (EBIT margins would be maintained) despite it being priced at INR2-2.5/stick.

Cig constitute only 15% of total tobacco consumption

India is stick based market vis-à-vis pack based market globally

Food business (67% of FMCG business) is already profitable

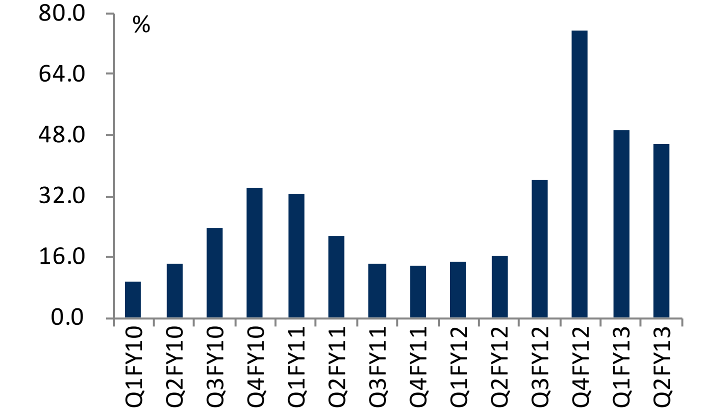
Regulatory concerns overplayed

- We also believe that plain packaging norm (adopted in Australia) is a legitimate long-term concern for the global tobacco industry. However, we remain less bothered about it in near to medium term as 1) Cig constitute only 15% of total tobacco consumption, 2) India is stick based market vis-à-vis pack based market globally, 3) general slow decision taking by government. We have experienced it while implementation of pictoral warning which took around 2 years after it was announced.
- We expect disruptive tax environment for cigarettes in India to continue in absence of which volume growth to exceed estimates of 4-5%.

FMCG business to provide next leg of growth

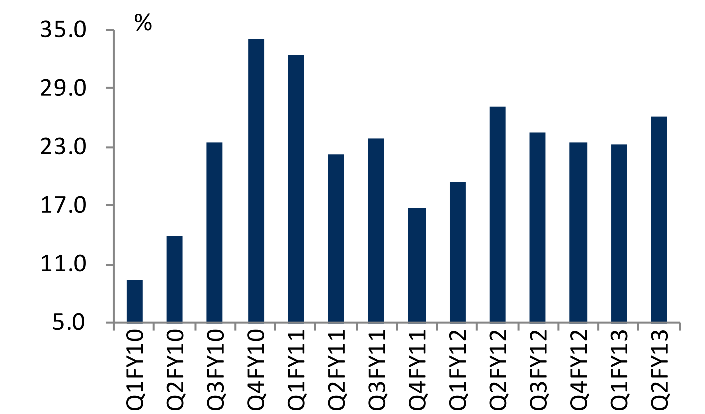
- Within a decade, ITC has transformed itself to INR 55.5bn FMCG giant having strong established brand. FMCG business reported negative EBIT of INR 303mn in 2QFY13E (down from INR 559mn EBIT loss in 2QFY12). We expect it to break even in 4QFY13E.
- Also, its food business (67% of FMCG business) is already profitable with its brands (Sunfeast, Yipee, Aashirwaad) growing faster than category.
- We are enthused by its continuous investment in the brand building and capex (plans INR20bn capex per year for next three years) and entry into newer categories (dairy, chocolates, etc).

FMCG growth



Source : Company, HDFC Sec Inst Research

EBIT



Source : Company, HDFC Sec Inst Research

SOTP

		FY15E	Methodology	Target multiple	Per share contribution
Cigs	EPS	10.6	P/E	23.0x	243
FMCG	Sales/Share	11.0	P/S	4.0x	44
Hotels	EBITDA/Share	0.6	EV/EBITDA	15.0x	9
Agri	EBITDA/Share	1.1	EV/EBITDA	10.0x	11
Paper	EBITDA/Share	2.1	EV/EBITDA	10.0x	21
Net cash					13
Value of share					**341**

Source : HDFC Sec Inst Research

Implied PE of 25x FY15E EPS

Valuations

- We Recommend BUY with SOTP based one year target price of INR 341. This implies 25x FY15E EPS which we believe is justified as FMCG likely to break even in 4QFY13 and its ability to retain margin in cigarettes in difficult scenario.

Key risks

- Reduction of tax differential between 64mm and 69mm cigarette
- Significant decline in cigarette volumes on the back of price hikes could dent profitability and valuations
- FMCG business takes longer than expected to break even

One-year forward price band chart

Source : HDFC Sec Inst Research

Income statement

(Rs mn)	FY11	FY12	FY13E	FY14E	FY15E
Net Sales	225,747	265,518	310,555	364,775	431,515
Growth (%)	**16.3**	**17.6**	**17.0**	**17.5**	**18.3**
Material Expenses	81,610	96,453	111,602	131,044	154,565
Employee Expenses	17,085	19,443	21,892	25,921	30,700
A&P Expenses	6,546	7,101	8,114	9,360	11,086
Other Operating Expenses	43,819	50,424	57,408	66,602	77,815
EBIDTA	**76,688**	**92,098**	**111,539**	**131,847**	**157,350**
EBIDTA (%)	**34.0**	**34.7**	**35.9**	**36.1**	**36.5**
EBIDTA Growth (%)	16.3	20.1	21.1	18.2	19.3
Other Income	5,361	7,844	8,129	8,846	9,527
Depreciation	**6,991**	**7,455**	**8,217**	**9,118**	**10,148**
EBIT	75,058	92,487	111,451	131,575	156,729
Interest	709	805	823	839	830
PBT	74,349	91,682	110,627	130,736	155,899
Tax	23,655	28,458	34,338	40,528	48,329
Minority Interest	(611)	(755)	(883)	(1,039)	(1,230)
Associate	96	113	132	155	184
Core PAT	50,179	62,581	75,538	89,324	106,524
Core PAT Growth (%)	20.4	24.7	20.7	18.2	19.2
EO items (net of tax)	**0**	**0**	**0**	**0**	**0**
RPAT	50,179	62,581	75,538	89,324	106,524
RPAT Growth (%)	20.4	24.7	20.7	18.2	19.2
EPS	**6.5**	**8.0**	**9.6**	**11.4**	**13.5**

Source : Company, HDFC Sec Inst Research

Balance sheet

(Rs mn)	FY11	FY12	FY13E	FY14E	FY15E
SOURCES OF FUNDS					
Share Capital	7,738	7,818	7,818	7,818	7,818
Reserves	157,161	186,767	209,626	233,541	262,062
Total Shareholders Funds	**164,899**	**194,586**	**217,444**	**241,360**	**269,880**
Minority Interest	1,408	1,571	2,454	3,493	4,723
Long Term Debt	898	1,054	-	-	-
Short Term Debt	348	122	1,076	976	876
Total Debt	1,245	1,176	1,076	976	876
Deferred Taxes	7,981	8,658	8,658	8,658	8,658
Long Term Provisions	1,056	1,196	1,196	1,196	1,196
TOTAL SOURCES OF FUNDS	**176,589**	**207,187**	**230,828**	**255,682**	**285,333**
APPLICATION OF FUNDS					
Net Block	89,070	96,990	103,773	114,654	124,506
CWIP	13,623	23,908	24,443	26,093	26,093
Goodwill	2,704	3,141	3,141	3,141	3,141
Investments	48,678	52,068	52,068	52,068	52,068
LT Loans & Advances	12,068	10,932	10,932	10,932	10,932
Inventories	57,348	64,281	71,041	83,433	98,698
Trade Receivables	10,867	12,038	13,310	15,552	18,302
Cash & Equivalents	24,269	31,301	41,787	42,495	47,960
ST Loans & Advances	4,325	4,660	4,660	4,660	4,660
Other Current Assets	963	1,316	1,316	1,316	1,316
Current Assets	97,771	113,596	132,113	147,456	170,936
Trade Payables	14,986	15,156	17,350	20,370	24,051
Other Current Liabilities & Provisions	72,340	78,293	78,293	78,293	78,293
Current Liabilities	87,326	93,448	95,642	98,662	102,344
Net current Assets	**10,446**	**20,148**	**36,471**	**48,794**	**68,592**
TOTAL APPLICATION OF FUNDS	**176,589**	**207,187**	**230,828**	**255,682**	**285,333**

Source : Company, HDFC Sec Inst Research

Cash flow statement

(Rs mn)	FY11	FY12	FY13E	FY14E	FY15E
Profit before tax	74,349	91,682	110,627	130,736	155,899
Interest, Dep & Others	(20,068)	(23,927)	(25,298)	(30,571)	(37,351)
Working Capital Change	807	(7,983)	(5,838)	(11,614)	(14,334)
OPERATING CASH FLOW (a)	**55,087**	**59,771**	**79,492**	**88,551**	**104,214**
Capex	(14,895)	(24,090)	(15,535)	(21,650)	(20,000)
Free Cash Flow	40,193	35,682	63,956	66,901	84,214
Investments & Others	6,181	4,318	132	155	184
INVESTING CASH FLOW (b)	**(8,713)**	**(19,772)**	**(15,403)**	**(21,495)**	**(19,816)**
Debt Issuance	9,379	7,646	(100)	(100)	(100)
Interest	(167)	(194)	(823)	(839)	(830)
Dividend	(45,010)	(40,618)	(52,679)	(65,409)	(78,003)
FINANCING CASH FLOW (c)	**(35,797)**	**(33,167)**	**(53,603)**	**(66,348)**	**(78,933)**
Fx effect	**0**	**0**	**0**	**0**	**0**
NET CASH FLOW (a+b+c)	**10,577**	**6,832**	**10,486**	**709**	**5,465**
Closing Cash	24,269	31,301	41,787	42,495	47,960

Source : Company, HDFC Sec Inst Research

Key ratios

	FY11	FY12	FY13E	FY14E	FY15E
PROFITABILITY (%)					
GPM	63.8	63.7	64.1	64.1	64.2
EBITDA Margin	34.0	34.7	35.9	36.1	36.5
EBIT Margin	30.9	31.9	33.3	33.6	34.1
APAT Margin	22.5	23.8	24.6	24.7	24.9
RoE	35.0	35.6	37.5	39.8	42.6
RoCE	59.9	59.8	61.9	64.2	67.4
EFFICIENCY					
Tax Rate (%)	32	31	31	31	31
Asset Turnover (x)	1.3	1.4	1.4	1.5	1.6
Inventory (days)	89	85	85	85	84
Debtors (days)	17	16	16	16	16
Payables (days)	64	32	32	32	32
Cash Conversion Cycle (days)	42	69	69	68	68
Debt/EBITDA (x)	0.0	0.0	0.0	0.0	0.0
D/E	0.0	0.0	0.0	0.0	0.0
Interest Coverage	98.3	105.1	125.5	146.2	177.4
VALUATION					
EPS (Rs/sh)	6.5	8.0	9.6	11.4	13.5
CEPS (Rs/sh)	7.5	9.0	10.8	12.7	15.1
BV (Rs/sh)	21.3	24.9	27.8	30.9	34.5
P/E	44.7	36.5	30.2	25.5	21.4
P/BV	13.6	11.7	10.4	9.4	8.4
EV/EBITDA	28.3	23.7	19.5	16.5	13.8
EV/Revenues	9.6	8.2	7.0	6.0	5.0
Dividend Yield (%)	1.5	1.6	2.0	2.5	3.0

Source : Company, HDFC Sec Inst Research

Marico

OUTPERFORM

INDUSTRY	FMCG
CMP *(as on 19 Dec 2012)*	**Rs 222**
Target Price	**Rs 240**
Nifty	5,930
Sensex	19,476
KEY STOCK DATA	
Bloomberg	MRCO IN
No. of Shares (mn)	645
MCap (Rs bn) / ($ mn)	143 / 2,619
6m avg traded value (Rs mn)	77

STOCK PERFORMANCE (%)			
52 Week high / low		**Rs 250 / 137**	
	3M	6M	12M
Absolute (%)	16.3	29.0	58.7
Relative (%)	11.0	13.5	32.1

SHAREHOLDING PATTERN (%)	
Promoters	59.78
FIs & Local MFs	6.74
FIIs	26.38
Public & Others	7.10

Source : BSE

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Well oiled machine

We are infused with confidence about the company's domestic business driven by Parachute and Saffola and its strong brand salience. Paras acquisition gives the company access to 'category of future'. We are enthused by company's strategy to enter healthy lifestyle categories and heightened rural focus (rural contribution to sales surged to 30% in 1QFY13 from 25% in FY10). International business to gain traction and margin to expand. Recommend OPF with TP of INR 240/sh.

Parachute and Saffola drive domestic business

Parachute continues to report resilient volume growth aided by up-trading from unbranded and loose coconut oil. Saffola to witness secular growth as 1) Saffola gains share in premium refined edible oil market (Saffola's volume grew ~9% in 1HFY13 vis-à-vis Sundrop's flat growth) and 2) consumers uptrade to healthier edible oils. We expect long-term volume growth for Saffola and Parachute to be ~15% and 7-8%, respectively.

Company is constantly investing in categories of future which will lessen Marico's dependence on edible oils and hair oils as 1) Paras brands contribute ~4% of Marico's sales (expected to grow at 30%), 2) the company expects foods to contribute 25% of Saffola from current 5% in next 5 years and 3) Parachute body lotion's success marks its entry into skin care category.

International business to witness margin boost

As the acquisitions stabilize, we expects international business margin to rise from the current 10-11% to 13-14% over the next two-three years. Also, Bangladesh provides immense opportunities as the company can leverage its existing distribution (Parachute: 80% market share) for other product categories (value added hair oil launched in Bangladesh). Marico envisages its international business to grow at ~15% yoy on constant currency basis.

However, there exists near term pressure in international business (high single digit growth in FY13E) due to 1) geopolitical issue in MENA, 2) Bangladesh is facing challenges due to double digit inflation and downward GDP estimates.

Valuations : upside exist

We appreciate Marico's established brand equity, focus on new growth drivers and price inelasticity (Parachute volume growth remained unaffected despite 32% price hike in span of 2 years). However, in near term, Saffola and international business to remain under pressure. At CMP, the stock is trading at 28.6x FY14E and 23.2x FY15E. Recommend OPF with TP of INR 240/sh (25x FY15E).

Financial summary

Particulars	FY11	FY12	FY13E	FY14E	FY15E
Net Sales (in Rs Mn)	31,350	40,083	47,372	55,396	65,225
Growth (%)	17.8	27.9	18.2	16.9	17.7
EBIDTA (in Rs Mn)	4,181	4,844	6,300	7,390	8,740
EBIDTA margin (%)	13.3	12.1	13.3	13.3	13.4
Net profit (in Rs Mn)	2,865	3,171	3,985	4,763	5,866
EPS (Rs.)	3.9	5.2	6.5	7.7	9.5
P/E (x)	57.4	42.7	34.2	28.6	23.2
EV/EBITDA	33.7	28.8	22.0	18.3	15.1
RoE (%)	30.3	31.0	30.5	28.5	27.8

Source: Company, HDFC Sec Inst Research

We expect long-term volume growth for Saffola and Parachute to be ~15% and 7-8%, respectively

Paras brands are expected to grow at 30%

Foods to contribute 25% of Saffola from current 5% in next 5 years

Parachute and Saffola remain mainstay

Key businesses	2QFY11	3QFY11	4QFY11	1QFY12	2QFY12	3QFY12	4QFY12	1QFY13	2QFY13
Parachute Coconut Oil	10	5	5	10	10	13	11	18	9
Value Added Hair Oil	14	31	21	32	26	20	18	25	20
Saffola	18	13	14	15	11	15	3	12	6
International	18	28	21	26	19	39	37	17	16

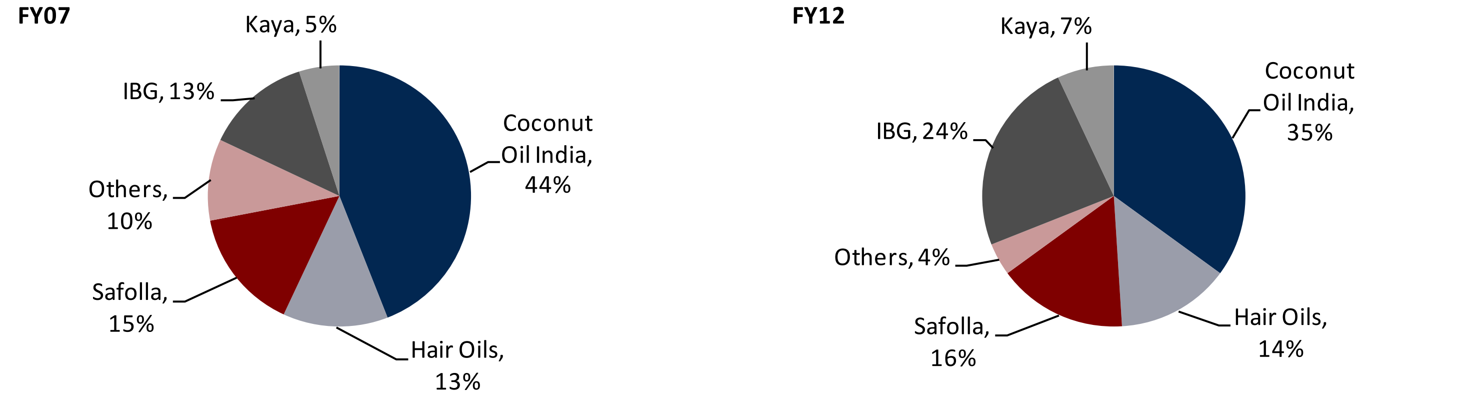
Source : Company, HDFC Sec Inst Research

Dominant presence across product portfolio

Brand	Category	Indicative Market Share	Rank	Penetration Level
Parachute	Coconut Oil (India)	46%	1	High
Parachute	Coconut Oil (Bangladesh)	80%	1	High
Saffola	Super Premium Refined Edible	58%	1	Low
Saffola	Oats	12%	2	Low
Parachute,Jasmine,Shanti Amla,hair & Care Nihar	Hair Oils	25%	2	High
Parachute Hair Cream	Hair Cream	27%	1	Low
Kaya Skin Clinic	Dermatology Led Skin Solution	35%	1	Low
X Men	Male shampoo (Vietnam)	47%	1	Low
Fiancee/Hair Code	Hair Styling (Egypt)	57%	1	Medium
Set Wet/Parachute advance	Hair Gels & Creams	37%	1	Low
Livon/Silk n Shine	Post wash Conditioner	84%	1	Low
Set Wet/Zatak	Deodrants	6%	2	low

Source : Company, HDFC Sec Inst Research

Reduce dependence on one category, segment and geography



Source : Company, HDFC Sec Inst Research

International business margin to rise from the current 10-11% to 13-14% over the next two-three years

Inorganic Growth

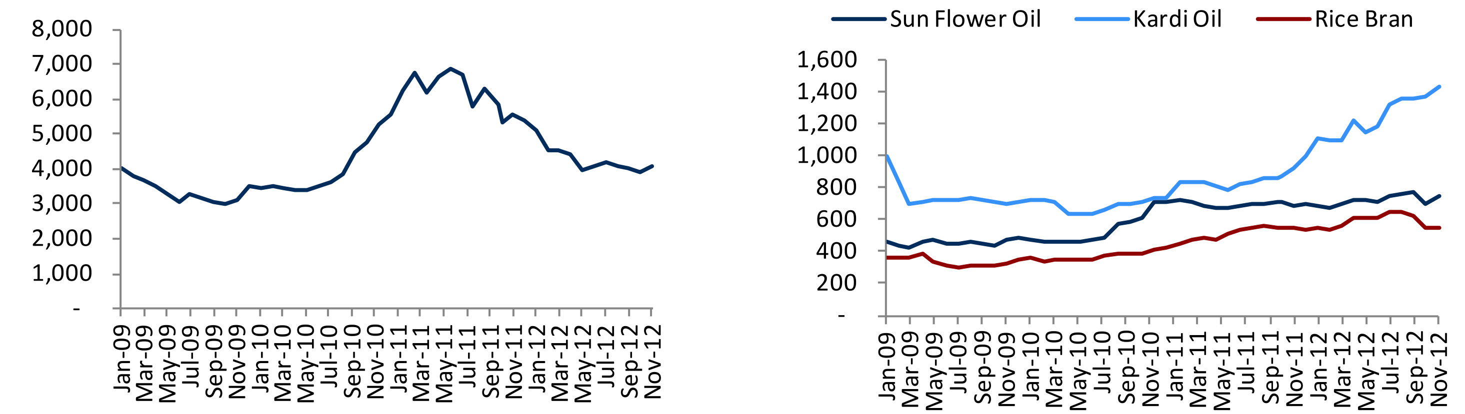
Company/Brand	Year of Acquisition	Country Of acquisition	Key category
Nihar	2006	India	Coconut Oil
Manjal	2006	India	Soap
Haircode And Fiancee	2006	Egypt	Male Grooming
Enaleni	2007	South Africa	Hair Care
Code10	2010	Malaysia	Male Grooming
Derma Rx	2010	Singapore	Skin Care Solutions
Ingwe	2010	Southafrica	OTC Health Care
ICP (85%)	2011	Vietnam	Male Grooming
Halite (Paras)	2012	India	Male Grooming

Source : Company, HDFC Sec Inst Research

Copra prices have declined 26% yoy. Parachute to benefit.

Sunflower oil prices up 9% yoy and kardi prices up 55% yoy. To hurt Saffola.

RM trend



Source : Company, HDFC Sec Inst Research

Valuations : upside exist

- We appreciate Marico's established brand equity, focus on new growth drivers and price inelasticity (Parachute volume growth remained unaffected despite 32% price hike in span of 2 years). However, in near term, Saffola and international business to remain under pressure. At CMP, the stock is trading at 28.6x FY14E and 23.2x FY15E. Recommend OPF with TP of INR 240/sh (25x FY15E).

Key Risk

- Extended slowdown in Saffola growth
- Contingent liability of ~ INR 2bn. This relates to excise duty on coconut oil sold in quantities below 200ml.

One-year forward price band chart

Source : HDFC Sec Inst Research

Income statement

(Rs mn)	FY11	FY12	FY13E	FY14E	FY15E
Net Sales	31,350	40,083	47,372	55,396	65,225
Growth (%)	**17.8**	**27.9**	**18.2**	**16.9**	**17.7**
Material Expenses	16,176	20,987	23,118	27,975	33,265
Employee Expenses	2,300	3,073	3,742	4,266	4,957
A&P Expenses	3,460	4,490	6,158	6,648	7,664
Other Operating Expenses	5,234	6,689	8,053	9,118	10,599
EBIDTA	**4,181**	**4,844**	**6,300**	**7,390**	**8,740**
EBIDTA (%)	**13.3**	**12.1**	**13.3**	**13.3**	**13.4**
EBIDTA Growth (%)	11.5	15.9	30.1	17.3	18.3
Other Income	212	326	386	452	608
Depreciation	**708**	**725**	**859**	**990**	**1,079**
EBIT	3,686	4,445	5,828	6,851	8,270
Interest	410	424	504	445	380
PBT	3,275	4,021	5,324	6,406	7,890
Tax	850	783	1,278	1,570	1,933
Minority Interest	(50)	(50)	(62)	(74)	(91)
Core PAT	2,376	3,189	3,985	4,763	5,866
Core PAT Growth (%)	(1.6)	34.2	25.0	19.5	23.2
EO items (net of tax)	**489**	**(18)**	**-**	**-**	**-**
RPAT	2,865	3,171	3,985	4,763	5,866
RPAT Growth (%)	23.7	10.7	25.7	19.5	23.2
EPS	**3.9**	**5.2**	**6.5**	**7.7**	**9.5**
EPS Growth (%)	(2.6)	34.3	25.0	19.5	23.2

Source : Company, HDFC Sec Inst Research

Balance sheet

(Rs mn)	FY11	FY12	FY13E	FY14E	FY15E
SOURCES OF FUNDS					
Share Capital	614	615	615	615	615
Reserves	8,540	10,815	14,104	18,037	22,878
Total Shareholders Funds	**9,155**	**11,430**	**14,719**	**18,651**	**23,493**
Minority Interest	219	249	311	385	476
Long Term Debt	3,817	3,907	3,409	2,911	2,413
Short Term Debt	3,924	3,941	3,439	2,937	2,435
Total Debt	7,742	7,848	6,848	5,848	4,848
Deferred Taxes	(299)	(223)	(223)	(223)	(223)
Long Term Provisions	446	419	419	419	419
TOTAL SOURCES OF FUNDS	17,262	19,723	22,074	25,080	29,013
APPLICATION OF FUNDS					
Net Block	4,251	4,617	5,758	5,768	5,689
CWIP	327	402	600	575	575
Goodwill	3,976	3,955	3,955	3,955	3,955
Investments	889	2,957	2,957	2,957	2,957
LT Loans & Advances	764	1,244	1,244	1,244	1,244
Inventories	6,011	7,202	7,795	9,101	10,697
Trade Receivables	1,779	1,816	2,111	2,454	2,871
Cash & Equivalents	2,206	1,588	1,796	3,803	6,575
ST Loans & Advances	792	751	751	751	751
Other Current Assets	1,038	1,416	1,416	1,416	1,416
Current Assets	11,826	12,773	13,870	17,524	22,311
Trade Payables	2,694	3,584	3,669	4,302	5,077
Other Current Liabilities & Provisions	2,077	2,640	2,640	2,640	2,640
Current Liabilities	4,770	6,224	6,310	6,942	7,718
Net current Assets	**7,055**	**6,549**	**7,560**	**10,582**	**14,593**
TOTAL APPLICATION OF FUNDS	**17,262**	**19,723**	**22,074**	**25,080**	**29,013**

Source : Company, HDFC Sec Inst Research

Cash flow statement

(Rs mn)	FY11	FY12	FY13E	FY14E	FY15E
Profit before tax	3,764	4,003	5,324	6,406	7,890
Interest, Dep & Others	(345)	(195)	85	(135)	(474)
Working Capital Change	(980)	262	(803)	(1,015)	(1,239)
OPERATING CASH FLOW (a)	**2,439**	**4,070**	**4,606**	**5,257**	**6,177**
Capex	(1,809)	(1,013)	(2,198)	(975)	(1,000)
Free Cash Flow	630	3,056	2,408	4,282	5,177
Investments & Others	(2,146)	(2,300)			
INVESTING CASH FLOW (b)	**(3,955)**	**(3,314)**	**(2,198)**	**(975)**	**(1,000)**
Debt Issuance	3,616	(270)	(1,000)	(1,000)	(1,000)
Interest	(405)	(447)	(504)	(445)	(380)
Dividend	(471)	(470)	(696)	(830)	(1,024)
FINANCING CASH FLOW (c)	**2,740**	**(1,187)**	**(2,200)**	**(2,275)**	**(2,404)**
Fx effect	**(90)**	**(38)**	**-**	**-**	**-**
NET CASH FLOW (a+b+c)	1,134	(468)	208	2,006	2,772
Closing Cash	2,206	1,588	1,796	3,803	6,575

Source : Company, HDFC Sec Inst Research

Key ratios

	FY11	FY12	FY13E	FY14E	FY15E
PROFITABILITY (%)					
GPM	48.4	47.6	51.2	49.5	49.0
EBITDA Margin	13.3	12.1	13.3	13.3	13.4
EBIT Margin	11.1	10.3	11.5	11.6	11.7
APAT Margin	9.1	7.9	8.4	8.6	9.0
RoE	30.3	31.0	30.5	28.5	27.8
RoCE	26.7	24.9	30.3	31.0	31.8
EFFICIENCY					
Tax Rate (%)	26	19	24	25	25
Asset Turnover (x)	2.3	2.2	2.3	2.3	2.4
Inventory (days)	61	60	60	60	60
Debtors (days)	19	16	16	16	16
Payables (days)	41	33	33	33	33
Cash Conversion Cycle (days)	39	44	44	43	43
Debt/EBITDA (x)	1.9	1.6	1.1	0.8	0.6
D/E	0.8	0.7	0.5	0.3	0.2
Interest Coverage	8.5	9.7	10.8	14.4	20.2
VALUATION					
EPS (Rs/sh)	3.9	5.2	6.5	7.7	9.5
CEPS (Rs/sh)	5.1	6.4	8.0	9.5	11.4
BV (Rs/sh)	14.9	18.6	23.9	30.3	38.2
P/E	57.4	42.7	34.2	28.6	23.2
P/BV	14.9	11.9	9.3	7.3	5.8
EV/EBITDA	33.7	28.8	22.0	18.3	15.1
EV/Revenues	4.5	3.5	2.9	2.4	2.0
Dividend Yield (%)	0.3	0.3	0.4	0.5	0.6

Source : Company, HDFC Sec Inst Research

Nestle

UNDERPERFORM

INDUSTRY	FMCG
CMP *(as on 19 Dec 2012)*	**Rs 4,913**
Target Price	**Rs 4,650**
Nifty	5,930
Sensex	19,476
KEY STOCK DATA	
Bloomberg	NEST IN
No. of Shares (mn)	96
MCap (Rs bn) / ($ mn)	474 / 8,682
6m avg traded value (Rs mn)	138

STOCK PERFORMANCE (%)

52 Week high / low **Rs 5,544 / 3925**

	3M	6M	12M
Absolute (%)	11.6	7.0	18.1
Relative (%)	6.3	(8.5)	(8.5)

SHAREHOLDING PATTERN (%)	
Promoters	62.76
FIs & Local MFs	7.49
FIIs	10.98
Public & Others	18.77

Source : BSE

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Profitability over volumes—right strategy??

Nestle exhibits tremendous growth opportunities in India on account of 1) low penetration of packaged food, 2) strong distribution reach (doubled in 3 years), 3) strong brand salience across categories, 4) strong parent portfolio and 5) doubled its capacities across categories except beverages thereby resolving capacity constraint issue. However, in mid-term, as the economic growth slows down and inflation remain at elevated level, consumers are reducing discretionary spends thereby packaged food category appears vulnerable (Nestle's volume growth in the past 3 quarters has been dismal). Also its entire product portfolio is facing severe competitive pressure. Recommend UPF with TP of INR 4,650.

Long term story remains intact

The company has doubled its capacities across categories (Nestle has spent INR22.7bn on capex) except beverages thereby resolving capacity constraint issue. This combined with strong distribution reach (doubled to ~4 mn outlet in 3 years) will aid the company in growing faster. Also, large product portfolio gap (bottled water, cornflakes, oats, desserts, cream, ice cream, juice, health drinks, ready to cook, ready to eat- non veg, frozen food- non veg, sandwiches) with the parent provides opportunity to customize those to Indian taste and launched in domestic market.

No product category is spared

Nestle's product portfolio is facing severe slowdown blues since past three quarters. 1) Milk Product: Significant price hikes and sustained inflation has led moderation in growth. 2) Infant Nutrition: Category will continue to witness muted growth (as compared to potential) due to advertisement ban. 3) Maggi: Increased competitive pressure from ITC (10% market share). 4) Chocolates: Limited innovation. Cadbury's growing at high double digit. 5) Beverages: HUL has pipped Nestle India to gain volume leadership in the branded instant coffee sector in India.

Earnings growth to remain under duress

We anticipate muted volume growth for next 2 quarters and sustained RM pressure (Commodity Basket Price Index has gone up from 138 in CY11 to 148 in YTD CY12). As new manufacturing plant comes on stream (capex INR 22.7bn), depreciation and interest outgo would surge impacting earnings and return ratios. At CMP, the stock is trading at 37.3x CY13E and 31.6x CY14E and appears fairly valued over the near term. Recommend UPF with TP of INR4,650/share (30x CY14E earnings in line with 5 year average valuation).

Financial summary

Particulars	CY10	CY11	CY12E	CY13E	CY14E
Net Sales (in Rs Mn)	62,736	75,145	84,363	98,370	114,931
Growth (%)	21.8	19.8	12.3	16.6	16.8
EBIDTA (in Rs Mn)	12,685	15,764	18,075	21,279	24,898
EBIDTA margin (%)	20.2	21.0	21.4	21.6	21.7
Net profit (in Rs Mn)	8,187	9,615	10,658	12,701	14,977
EPS (Rs.)	84.9	99.7	110.5	131.7	155.3
P/E (x)	57.9	49.3	44.4	37.3	31.6
EV/EBITDA	37.0	30.4	26.9	22.7	19.2
RoE (%)	114.0	90.3	69.8	62.1	57.1

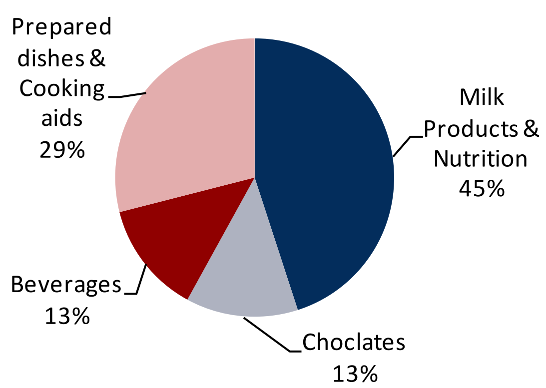
Source: Company, HDFC Sec Inst Research

Nestle India doubled sale in last 4 years

Distribution reach almost doubled in 3 years

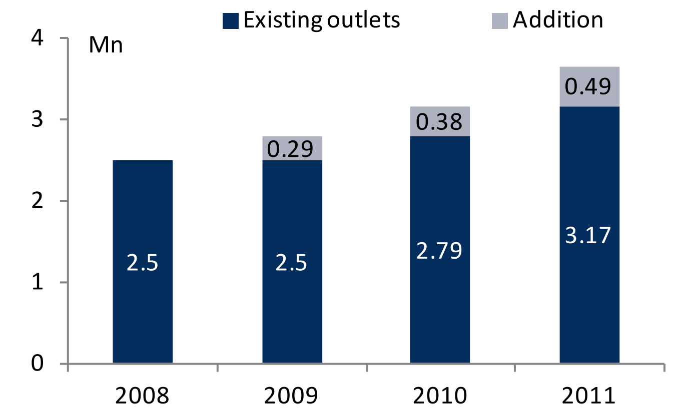
Nestle sales growth are co-related with GDP

Well balance portfolio



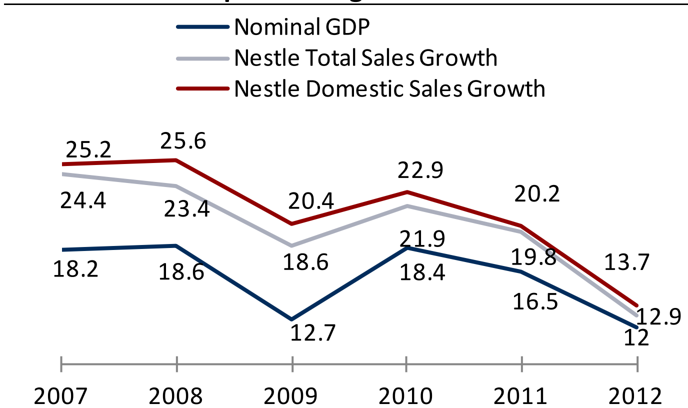
Source : Company, HDFC Sec Inst Research

Increased distribution reach to aid growth



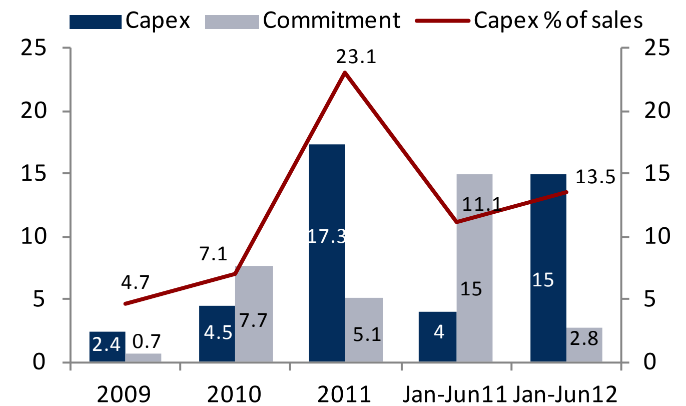
Source : Company, HDFC Sec Inst Research

Lower GDP to impact sales growth in near term



Source : Company, HDFC Sec Inst Research

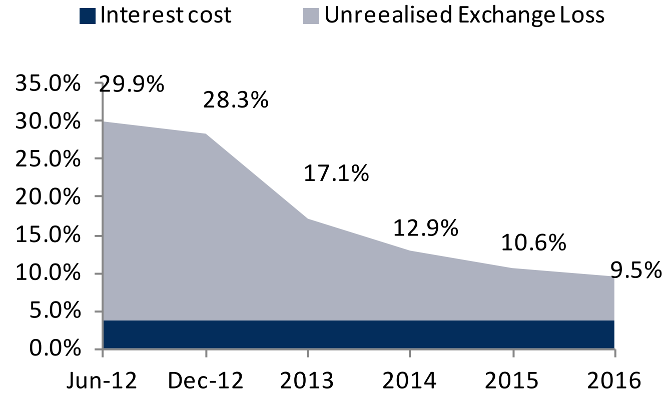
High capex => higher depreciation



Source : Company, HDFC Sec Inst Research

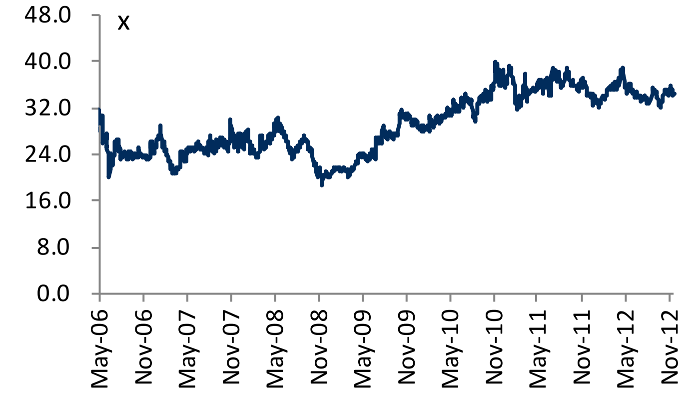
Rupee depreciation increases cost of borrowing

ECB cost illustration: INR depreciates to 62 by Dec 2012



Source : Company, HDFC Sec Inst Research

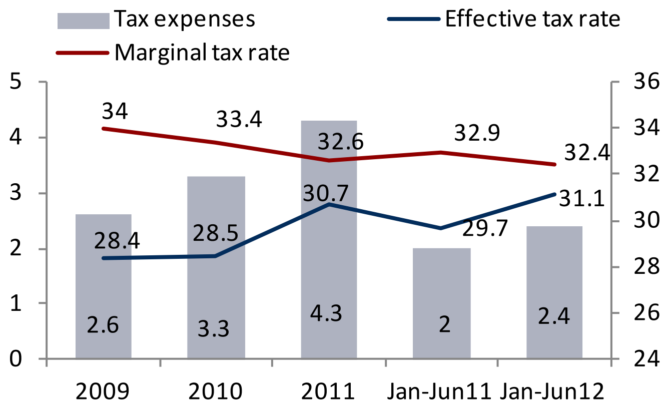
Nestle's one-year forward PE band chart



Source : HDFC Sec Inst Research

Tax rate to rise as income tax benefits for manufacturing plants decline

Higher tax rate to further impact profitability



Source : Company, HDFC Sec Inst Research

Nestle is trading at 20% premium to its 5 year mean valuation

Valuations rich; earnings growth to remain under duress in near term

- We anticipate muted volume growth for next 2 quarters and sustained RM pressure (Commodity Basket Price Index has gone up from 138 in CY11 to 148 in YTD CY12). As new manufacturing plant comes on stream (capex INR 22.7bn), depreciation and interest outgo would surge impacting earnings and return ratios. At CMP, the stock is trading at 37.3x CY13E and 31.6x CY14E and appears fairly valued over the near term. Recommend UPF with TP of INR4,650/share (30x CY14E earnings in line with 5 year average valuation).

Key risks

- Recovery in volume growth
- Softening in RM prices

Income statement

(Rs mn)	CY10	CY11	CY12E	CY13E	CY14E
Net Sales	62,736	75,145	84,363	98,370	114,931
Growth (%)	**21.8**	**19.8**	**12.3**	**16.6**	**16.8**
Material Expenses	30,556	35,894	38,491	45,858	53,772
Employee Expenses	4,334	5,465	6,580	7,378	8,620
A&P Expenses	3,026	3,276	4,134	4,918	5,517
Other Operating Expenses	12,135	14,746	17,084	18,936	22,124
EBIDTA	**12,685**	**15,764**	**18,075**	**21,279**	**24,898**
EBIDTA (%)	**20.2**	**21.0**	**21.4**	**21.6**	**21.7**
EBIDTA Growth (%)	20.2	24.3	14.7	17.7	17.0
Other Income	238	273	289	366	428
Provision for contingencies	184	469	-	-	-
Depreciation	**1,278**	**1,637**	**2,650**	**2,770**	**3,169**
EBIT	11,462	13,930	15,714	18,875	22,158
Interest	11	51	267	334	294
PBT	11,451	13,879	15,447	18,541	21,864
Tax	3,264	4,264	4,788	5,840	6,887
Minority Interest					
Core PAT	8,187	9,615	10,658	12,701	14,977
Core PAT Growth (%)	25.0	17.5	10.8	19.2	17.9
EO items (net of tax)	**-**	**-**	**-**	**-**	**-**
RPAT	8,187	9,615	10,658	12,701	14,977
RPAT Growth (%)	25.0	17.5	10.8	19.2	17.9
EPS	84.9	99.7	110.5	131.7	155.3
EPS Growth (%)	25.0	17.5	10.8	19.2	17.9

Source : Company, HDFC Sec Inst Research

Balance sheet

(Rs mn)	CY10	CY11	CY12E	CY13E	CY14E
SOURCES OF FUNDS					
Share Capital	964	964	964	964	964
Reserves	7,590	11,775	16,846	22,149	28,401
Total Shareholders Funds	**8,554**	**12,740**	**17,810**	**23,113**	**29,365**
Secured debt	-	8	7,519	6,619	5,719
Unsecured debt	-	9,700	9,190	8,090	6,990
Total Debt	-	9,709	16,709	14,709	12,709
Deferred Taxes	333	435	435	435	435
TOTAL SOURCES OF FUNDS	**8,887**	**22,883**	**34,954**	**38,256**	**42,509**
APPLICATION OF FUNDS					
Net Block	10,127	15,758	22,294	26,524	27,355
CWIP	3,489	14,186	20,000	17,000	17,000
Investments	1,507	1,344	1,344	1,344	1,344
Inventories	5,760	7,340	7,330	8,520	9,923
Trade Receivables	633	1,154	980	1,116	1,272
Cash & Equivalents	2,553	2,272	1,986	4,368	8,192
ST Loans & Advances	1,514	1,964	1,964	1,964	1,964
Other Current Assets	-	-	-	-	-
Current Assets	10,460	12,730	12,260	15,968	21,351
Trade Payables	7,617	10,096	9,905	11,540	13,502
Other Current Liabilities & Provisions	9,079	11,038	11,038	11,038	11,038
Current Liabilities	16,696	21,135	20,943	22,579	24,541
Net current Assets	**(6,236)**	**(8,404)**	**(8,684)**	**(6,611)**	**(3,189)**
TOTAL APPLICATION OF FUNDS	**8,887**	**22,883**	**34,954**	**38,256**	**42,509**

Source : Company, HDFC Sec Inst Research

Cash flow statement

(Rs mn)	CY10	CY11	CY12E	CY13E	CY14E
Profit before tax	11,451	13,879	15,447	18,541	21,864
Interest, Dep & Others	(1,839)	(1,839)	(1,871)	(2,736)	(3,424)
Working Capital Change	756	(163)	(7)	309	403
OPERATING CASH FLOW (a)	**10,368**	**11,876**	**13,568**	**16,114**	**18,842**
Capex	(4,459)	(15,552)	(15,000)	(4,000)	(4,000)
Free Cash Flow	5,909	(3,676)	(1,432)	12,114	14,842
Investments & Others	-	-	-	-	-
INVESTING CASH FLOW (b)	**(4,459)**	**(15,552)**	**(15,000)**	**(4,000)**	**(4,000)**
Debt Issuance	3	8,652	7,000	(2,000)	(2,000)
Interest	(11)	(13)	(267)	(334)	(294)
Dividend	(5,430)	(5,407)	(5,588)	(7,398)	(8,724)
FINANCING CASH FLOW (c)	**(5,438)**	**3,232**	**1,145**	**(9,732)**	**(11,018)**
Fx effect	**-**	**-**	**-**	**-**	**-**
NET CASH FLOW (a+b+c)	**471**	**(444)**	**(286)**	**2,382**	**3,824**
Closing Cash	2,553	2,272	1,986	4,368	8,192

Source : Company, HDFC Sec Inst Research

Key ratios

	CY10	CY11	CY12E	CY13E	CY14E
PROFITABILITY (%)					
GPM	51.3	52.2	54.4	53.4	53.2
EBITDA Margin	20.2	21.0	21.4	21.6	21.7
EBIT Margin	18.2	18.8	18.3	18.8	18.9
APAT Margin	13.0	12.8	12.6	12.9	13.0
RoE	114.0	90.3	69.8	62.1	57.1
RoCE	198.7	97.7	55.9	52.5	55.7
EFFICIENCY					
Tax Rate (%)	29	31	31	32	32
Asset Turnover (x)	8.4	4.7	2.9	2.7	2.8
Inventory (days)	31	32	32	32	32
Debtors (days)	4	4	4	4	4
Payables (days)	49	54	55	55	55
Cash Conversion Cycle (days)	(14)	(18)	(19)	(19)	(19)
Debt/EBITDA (x)	-	0.6	0.9	0.7	0.5
D/E	-	0.8	0.9	0.6	0.4
Interest Coverage	1,061.7	276.5	-	-	-
VALUATION					
EPS (Rs/sh)	84.9	99.7	110.5	131.7	155.3
CEPS (Rs/sh)	98.2	116.7	138.0	160.5	188.2
BV (Rs/sh)	88.7	132.1	184.7	239.7	304.6
P/E	57.9	49.3	44.4	37.3	31.6
P/BV	55.4	37.2	26.6	20.5	16.1
EV/EBITDA	37.0	30.4	26.9	22.7	19.2
EV/Revenues	7.5	6.4	5.8	4.9	4.1
Dividend Yield (%)	1.0	1.0	1.0	1.3	1.6

Source : Company, HDFC Sec Inst Research

Rating Definitions

BUY	:	Where the stock is expected to deliver more than 15% returns over the next 12 months' period
OUTPERFORM	:	Where the stock is expected to deliver 0 to 15% returns over the next 12 months' period
UNDERPERFORM	:	Where the stock is expected to deliver (-) 10% to 0% returns over the next 12 months' period
SELL	:	Where the stock is expected to deliver less than (-)10% returns over the next 12 months' period

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