

## FMCG

### No dichotomy, an ideal quarter

We believe EBITDA margin expansion with steady revenue growth shall be the theme in our FMCG universe for Q3FY13. We see a revenue growth of 16% YoY in the companies under our coverage, with gross margin expanding by 88bps to 53%. We expect the EBITDA margin to expand by 63bps to 22.7%, supported by a stable advertisement-to-sales (A:S) ratio. We expect Dabur to report EBITDA margin expansion by 125bps in Q3FY13, after seven quarters of decline. GSK Consumer, Marico and Dabur should post outstanding earnings growth.

#### Top picks

Dabur (Buy)  
GSK Consumer (Buy)  
Marico (Buy)  
VST Industries (Buy)  
ITC (Add)

- ▶ **EBITDA margin to expand across companies:** Q3FY13 will see EBITDA margin expansion for all FMCG companies under our coverage. Moderation in raw material prices and price hikes taken during the year will enable margin expansion while sustaining volume growth. Companies to report significant EBITDA margin expansion include: Marico (+172bps), Dabur (+125bps) and ITC (+94bps), while Godrej Consumer (GCPL) is the only company where we expect EBITDA margin to decline slightly by 32bps.
- ▶ **Steady revenue growth:** We expect steady revenue growth of 16% for our FMCG coverage universe. We see personal care companies reporting a better revenue growth at 17% for Q3FY13, in line with the 17% revenue growth in Q2FY13, sustaining the volume growth momentum. GCPL should lead revenue growth, with a 25% rise for the quarter, supported by inorganic growth.
- ▶ **What to look for in Q3FY13 results:** Key things to look out for in Q3FY13 numbers are: trend in volume growth, and the A:S ratio. While Q2FY13 saw certain discretionary categories witnessing demand deceleration, we believe the festive season has supported growth in the discretionary segment, while onset of early winter supports growth in personal products like skincare and seasonal health supplements like *Chyawanprash*. As we expect gross margin to expand across companies, the key metric to watch out for is the trend in A:S. We expect gross margin to expand by 88bps in Q3FY13 for the companies combined, in line with the 94bps expansion seen in Q2FY13. However, we expect the A:S ratio to expand by only 24bps YoY in contrast with the 54bps expansion in Q2FY13.
- ▶ **BUY Dabur, GSK Consumer and Marico:** We expect GSK Consumer, Dabur and Marico to lead the FMCG pack in earnings growth. We believe on-the-ground strategic actions taken by Dabur will enable Q3FY13 to mark the revival of the company's EBITDA margin trend, with domestic business volume growing at ~10%. While we expect GSK Consumer to report 46% PAT growth, driven by 17% revenue growth and 85bps EBITDA margin expansion, we expect Marico to report another quarter of strong margin expansion along with a 20% revenue growth. Trade interactions underline revival in Dabur's performance and maintenance in Marico's growth momentum (Paras' portfolio witnesses strong demand though there is supply constraint). We reiterate our **BUY** call on Dabur, GSK Consumer and Marico.

#### Quarterly summary

(Rs mn)	Sales			EBITDA			PAT		
	OND-12*	% Chg		OND-12*	% Chg		OND-12*	% Chg	
		(YoY)	(QoQ)		(YoY)	(QoQ)		(YoY)	(QoQ)
ITC	71,966	15.2	(0.4)	28,103	18.0	4.5	20,120	18.3	9.6
HUL	67,909	14.4	7.6	11,471	18.2	17.4	8,978	17.2	11.5
Nestle#	21,965	11.9	3.4	4,485	13.9	1.0	2,601	7.8	(2.7)
Dabur	16,974	16.0	11.1	2,903	25.2	7.8	2,167	25.4	7.1
GCPL	16,939	25.4	5.8	3,356	23.4	34.8	2,361	28.8	40.9
Colgate	8,143	18.1	2.8	1,839	23.2	4.6	1,416	22.5	(2.4)
GSK Con#	7,326	17.3	(14.6)	1,052	24.7	(38.4)	863	46.0	(32.9)
Marico	12,715	20.0	9.7	1,729	37.3	14.3	1,076	27.9	25.3
VST Ind.	1,681	(3.1)	(4.6)	544	(1.9)	25.6	380	0.0	37.6
ATFL	2,002	10.3	3.9	179	16.5	21.5	116	3.4	25.7

\*OND: October-December '12; # Year ending December, Source: I-Sec research

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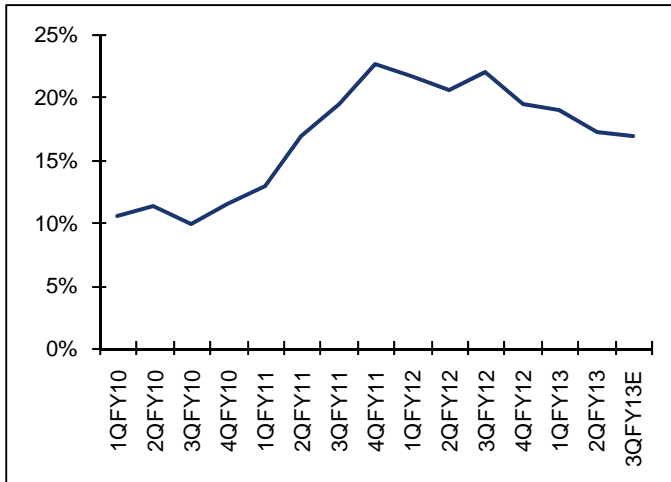
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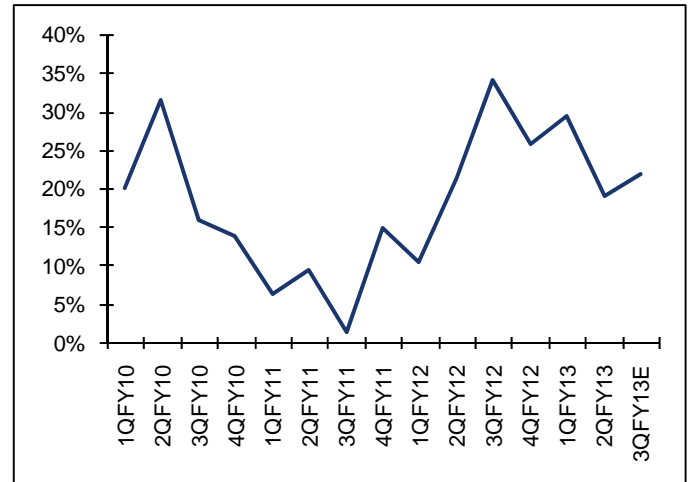
## Segment-wise performance

**Chart 1: Personal care revenue growth\***



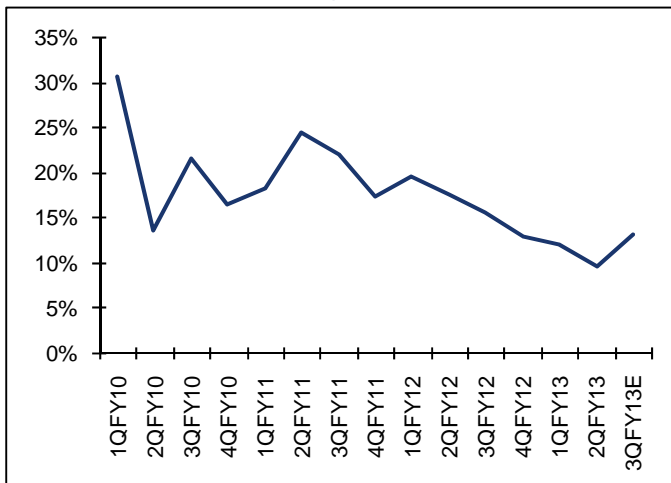
Note: \* total of HUL, Dabur, GCPL, Colgate and Marico

**Chart 2: Personal care EBITDA growth (YoY)\***



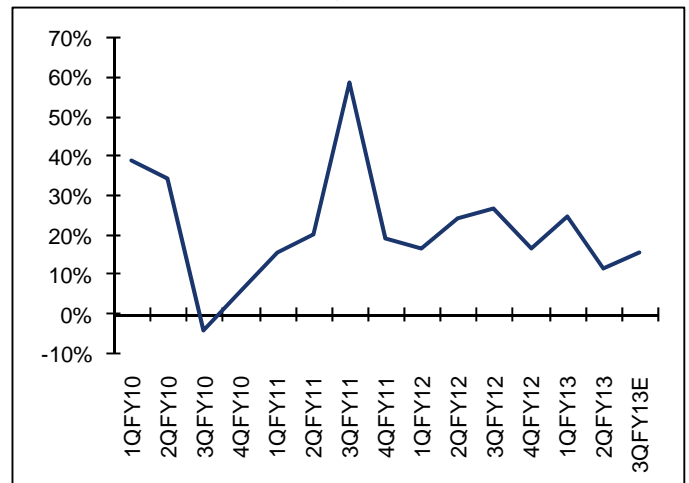
Note: \* total of HUL, Dabur, GCPL, Colgate and Marico

**Chart 3: Foods revenue growth\***



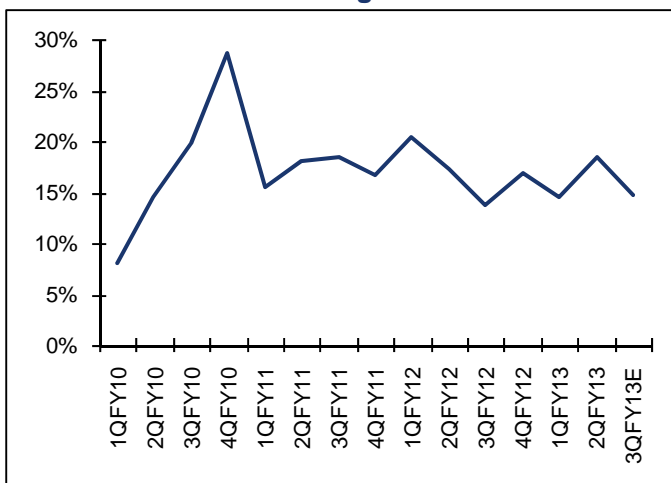
Note: \* total of Nestle, GSK Consumer and Agro Tech Foods

**Chart 4: Foods EBITDA growth (YoY)\***



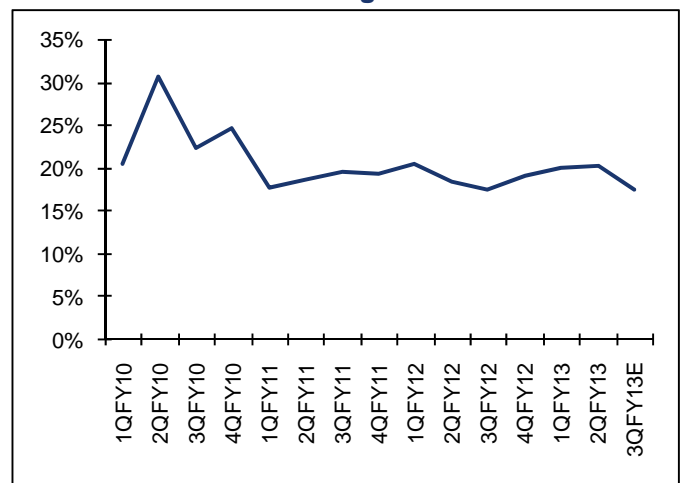
Note: \* total of Nestle, GSK Consumer and Agro Tech Foods

**Chart 5: Tobacco revenue growth**



Note: \* total of ITC and VST  
Source: Company data, I-Sec research

**Chart 6: Tobacco EBITDA growth**



Note: \* total of ITC and VST

## Dabur (BUY)

(QoQ chg: 0.7%; YTD chg: 31.0%)

### Quarterly estimates

(Rs mn, year ending March 31)

	Q3FY13E	Q3FY12	% YoY gr.	Q2FY13	FY13E	FY12	% YoY gr.
<b>Net Sales</b>	<b>16,924</b>	<b>14,527</b>	<b>16.5</b>	<b>15,226</b>	<b>62,657</b>	<b>52,832</b>	<b>18.6</b>
Other Operating Income	50	104	-51.9	49	247	223	11.0
<b>Total Operating Income</b>	<b>16,974</b>	<b>14,631</b>	<b>16.0</b>	<b>15,275</b>	<b>62,904</b>	<b>53,054</b>	<b>18.6</b>
Raw Mat	8,351	7,404	12.8	7,525	30,953	26,852	15.3
% of TOI	49.2	50.6		49.3	49.2	50.6	
Advertising & publicity	2,291	1,982	15.6	1,808	8,542	6,595	29.5
% of TOI	13.5	13.5		11.8	13.6	12.4	
Employee cost	1,205	1,056	14.1	1,212	4,578	3,874	18.2
% of TOI	7.1	7.2		7.9	7.3	7.3	
Other expenditure	2,224	1,870	18.9	2,037	8,360	6,831	22.4
% of TOI	13.1	12.8		13.3	13.3	12.9	
<b>Total expenditure</b>	<b>14,071</b>	<b>12,312</b>	<b>14.3</b>	<b>12,582</b>	<b>52,433</b>	<b>44,153</b>	<b>18.8</b>
<b>EBITDA</b>	<b>2,903</b>	<b>2,319</b>	<b>25.2</b>	<b>2,693</b>	<b>10,471</b>	<b>8,902</b>	<b>17.6</b>
EBITDA margin (%)	17.1	15.8		17.6	16.6	16.8	
Other income	200	127	57.2	226	870	574	51.5
<b>PBDIT</b>	<b>3,103</b>	<b>2,446</b>	<b>26.8</b>	<b>2,919</b>	<b>11,340</b>	<b>9,476</b>	<b>19.7</b>
Depreciation	275	208	32.1	270	1,090	1,032	5.5
<b>PBIT</b>	<b>2,828</b>	<b>2,238</b>	<b>26.3</b>	<b>2,649</b>	<b>10,251</b>	<b>8,443</b>	<b>21.4</b>
Interest	130	183	-28.9	149	621	538	15.3
<b>PBT</b>	<b>2,698</b>	<b>2,055</b>	<b>31.3</b>	<b>2,500</b>	<b>9,630</b>	<b>7,905</b>	<b>21.8</b>
Prov for tax	531	337	57.7	464	1,897	1,464	29.6
% of PBT	19.7	16.4		18.6	19.7	18.5	
<b>PAT before minority int.</b>	<b>2,166</b>	<b>1,718</b>	<b>26.1</b>	<b>2,036</b>	<b>7,733</b>	<b>6,441</b>	<b>20.1</b>
Minority Interest	1	10		(13)	-	8	
<b>PAT after minority int.</b>	<b>2,167</b>	<b>1,728</b>	<b>25.4</b>	<b>2,023</b>	<b>7,733</b>	<b>6,449</b>	<b>19.9</b>
<b>EPS (Rs)</b>	<b>1.24</b>	<b>0.99</b>	<b>25.3</b>	<b>1.16</b>	<b>4.44</b>	<b>3.70</b>	<b>19.9</b>

Source: Company data, I-Sec research

- **Revenues to grow by 17% in the quarter**, led by 16% revenue growth in domestic business driven by 10% volume growth. We expect 17% revenue growth in the company's international business including exchange translation gains of 5%.
- **EBITDA margin to expand by 125bps** driven by a 140bps increase in gross margin due to moderation in prices of key raw materials like low liquid paraffin, orange juice, copra. We expect the A:S ratio to remain flat at 13.5%. This will be the first quarter of Dabur's EBITDA margin expansion after seven quarters of decline. We believe strategic on-the-ground actions taken by the company and moderation in key raw material prices shall allow Dabur to recoup at least 100bps EBITDA margin out of 300bps EBITDA margin lost over the past two years. We expect EBITDA to grow by 25% and PAT to grow by 26% during the quarter.
- **Key factors to watch:** i) Volume growth in domestic business, ii) gross margin, and iii) EBITDA margin.

## GSK Consumer (BUY)

(QoQ chg: 29%; YTD chg: 48.9%)

### Quarterly estimates

(Rs mn, year ending December 31)

	Q4CY12E	Q4CY11	% YoY gr.	Q3CY12	CY12E	CY11	% YoY gr.
<b>Revenue</b>	<b>7,326</b>	<b>6,248</b>	<b>17.3</b>	<b>8,577</b>	<b>30,747</b>	<b>26,855</b>	<b>14.5</b>
Raw materials	2,491	2,141	16.3	3,104	11,602	10,227	13.4
% of revenue	34.0	34.3		36.2	37.7	38.1	
Employee cost	755	617	22.4	775	2,982	2,584	15.4
% of revenue	10.3	9.9		9.0	9.7	9.6	
Advertisement	1,313	1,142	15.0	1,386	4,950	4,373	13.2
% of revenue	17.9	18.3		16.2	16.1	16.3	
Other expenditure	1,715	1,504	14.0	1,605	6,314	5,456	15.7
% of revenue	23.4	24.1		18.7	20.5	20.3	
<b>Total expenditure</b>	<b>6,274</b>	<b>5,404</b>	<b>16.1</b>	<b>6,871</b>	<b>25,848</b>	<b>22,640</b>	<b>14.2</b>
<b>EBITDA</b>	<b>1,052</b>	<b>844</b>	<b>24.7</b>	<b>1,706</b>	<b>4,899</b>	<b>4,215</b>	<b>16.2</b>
EBITDA Margin (%)	14.4	13.5		19.9	15.9	15.7	
Other income	318	259	22.5	276	2,203	1,648	33.7
<b>PBDIT</b>	<b>1,369</b>	<b>1,103</b>	<b>24.2</b>	<b>1,983</b>	<b>7,101</b>	<b>5,862</b>	<b>21.1</b>
Depreciation	80	121	-33.8	77	362	460	-21.3
<b>PBIT</b>	<b>1,289</b>	<b>982</b>	<b>31.3</b>	<b>1,906</b>	<b>6,740</b>	<b>5,403</b>	<b>24.7</b>
Interest	2	9	-77.3	3	-	-	#DIV/0!
<b>PBT</b>	<b>1,287</b>	<b>973</b>	<b>32.3</b>	<b>1,903</b>	<b>6,740</b>	<b>5,403</b>	<b>24.7</b>
Prov for tax	425	382	11.2	617	2,206	1,784	23.6
% of PBT	33.0	39.3		32.4	32.7	33.0	
<b>PAT</b>	<b>863</b>	<b>591</b>	<b>46.0</b>	<b>1,286</b>	<b>4,534</b>	<b>3,619</b>	<b>25.3</b>
<b>EPS (Rs)</b>	<b>20.5</b>	<b>14.1</b>	<b>46.0</b>	<b>30.56</b>	<b>107.8</b>	<b>86.0</b>	<b>25.3</b>

Source: Company data, I-Sec research

- **Revenues to grow 17% in Q4CY12** led by a 12% volume growth in health food drinks.
- **EBITDA margin to improve 85bps to 14.4%** driven by 27bps expansion in the gross margin owing to price increases effected by the company during the quarter and 20% decline in milk prices. We expect EBITDA to grow by 24.7% and PAT to grow by 46% during the quarter, supported by lower depreciation and lower tax rates.
- **Key factors to watch:** i) Volume growth in *Horlicks*, and ii) EBITDA margin.

## Marico (BUY)

(QoQ chg: 7.2%; YTD chg: 51.8%)

### Quarterly estimates

(Rs mn, year ending March 31)

	Q3FY13E	Q3FY12	% YoY gr.	Q2FY12	FY13E	FY12	% YoY gr.
<b>Net Sales</b>	<b>12,715</b>	<b>10,596</b>	<b>20.0</b>	<b>11,595</b>	<b>48,071</b>	<b>40,083</b>	<b>17.9</b>
Raw Mat	5,976	5,449	9.7	5,606	22,980	20,987	28.0
% of NS	47.0	51.4		48.4	47.8	52.4	
Employee cost	1,068	807	32.3	967	4,001	3,073	14.9
% of NS	8.4	7.6		8.3	8.3	7.7	
Advertisement	1,780	1,339	32.9	1,586	6,252	4,490	1.9
% of NS	14.0	12.6		13.7	13.0	11.2	
Other expenditure	2,162	1,741	24.1	1,923	8,205	6,689	13.8
% of NS	17.0	16.4		16.6	17.1	16.7	
<b>Total Expenditure</b>	<b>10,986</b>	<b>9,337</b>	<b>17.7</b>	<b>10,082</b>	<b>41,437</b>	<b>35,239</b>	<b>19.9</b>
<b>EBITDA</b>	<b>1,729</b>	<b>1,259</b>	<b>37.3</b>	<b>1,512</b>	<b>6,633</b>	<b>4,844</b>	<b>5.9</b>
EBITDA Margin (%)	13.6	11.9		13.0	13.8	12.1	
Other Income	90	78	15.9	39	365	326	40.0
<b>PBDIT</b>	<b>1,819</b>	<b>1,337</b>	<b>36.1</b>	<b>1,552</b>	<b>6,998</b>	<b>5,170</b>	<b>7.5</b>
Depreciation	205	188	8.8	225	827	725	-5.0
<b>PBIT</b>	<b>1,614</b>	<b>1,148</b>	<b>40.6</b>	<b>1,327</b>	<b>6,171</b>	<b>4,444</b>	<b>9.7</b>
Interest	150	109	37.6	145	620	424	8.0
<b>PBT before Minority Int</b>	<b>1,464</b>	<b>1,039</b>	<b>40.9</b>	<b>1,182</b>	<b>5,551</b>	<b>4,021</b>	<b>9.9</b>
Minority Interest	29.9	19.9	49.8	29.9	109.0	49.5	-100.0
<b>PBT after Minority Int</b>	<b>1,434</b>	<b>1,019</b>	<b>40.7</b>	<b>1,152</b>	<b>5,442</b>	<b>3,971</b>	<b>10.5</b>
Prov for Tax	359	178	101.3	293	1,312	783	-15.9
% of PBT	25.0	17.5		25.5	24.1	19.7	
<b>PAT</b>	<b>1,076</b>	<b>841</b>	<b>28</b>	<b>859</b>	<b>4,131</b>	<b>3,189</b>	<b>17.6</b>
Extraordinary Item	-	-		-	-	(18)	
<b>PAT After extraordinary</b>	<b>1,076</b>	<b>841</b>	<b>27.9</b>	<b>859</b>	<b>4,131</b>	<b>3,171</b>	<b>22.5</b>
<b>EPS (Rs)</b>	<b>1.71</b>	<b>1.37</b>	<b>24.9</b>	<b>1.37</b>	<b>6.41</b>	<b>5.19</b>	<b>17.6</b>

Source: Company data, I-Sec research

- **Revenues to grow 20% during the quarter** led by a 12% volume growth in *Parachute* and 12% volume growth in *Saffola*. We expect revenues from the international business to grow by 20% during the quarter.
- **EBITDA margin to improve by 172bps to 13.6%** driven by 443bps expansion in the gross margin and the A:S ratio to expand by 136bps.
- **Key factors to watch:** i) Volume growth, ii) gross margin, and iii) performance of the international business, primarily business in Bangladesh.

## VST Industries (BUY)

(QoQ chg: 8.0%; YTD chg: 80.4%)

### Quarterly estimates

(Rs mn, year ending March 31)

Y/e March	Q3FY13E	Q3FY12	% YoY gr.	Q2FY13	FY13E	FY12	% YoY gr.
Net Sales	1,671	1,729	-3.4	1,749	6,843	6,801	0.6
Other operating income	10	5		13			
<b>Total Operating Income</b>	<b>1,681</b>	<b>1,734</b>	<b>-3.1</b>	<b>1,762</b>	<b>6,843</b>	<b>6,801</b>	<b>0.6</b>
Raw materials	701	768	-8.8	906	3,042	3,082	-1.3
% of Total Op. Income	41.7	44.3		51.4	44.5	45.3	
Personnel	158	147	7.4	158	667	620	7.7
% of Total Op. Income	9.4	8.5		9.0	9.8	9.1	
Manufacturing & Other Exp	278	265	5.1	265	1,073	1,045	2.7
% of Total Op. Income	16.5	15.3		15.0	15.7	15.4	
<b>Total Expenses</b>	<b>1,137</b>	<b>1,180</b>	<b>-3.6</b>	<b>1,329</b>	<b>4,783</b>	<b>4,747</b>	<b>0.8</b>
<b>EBITDA</b>	<b>544</b>	<b>555</b>	<b>-1.9</b>	<b>433</b>	<b>2,060</b>	<b>2,055</b>	<b>0.3</b>
EBITDA Margin %	32.4	32.0		24.6	30.1	30.2	
Other Income	69	57	20.8	25	256	300	-14.7
<b>PBDIT</b>	<b>613</b>	<b>612</b>	<b>0.2</b>	<b>459</b>	<b>2,316</b>	<b>2,355</b>	<b>-1.7</b>
Depreciation	55	54	1.1	54	218	248	-12.2
<b>PBIT</b>	<b>558</b>	<b>558</b>	<b>0.1</b>	<b>405</b>	<b>2,098</b>	<b>2,107</b>	<b>-0.4</b>
Interest	-	-		-	-	-	
<b>PBT</b>	<b>558</b>	<b>558</b>	<b>0.1</b>	<b>405</b>	<b>2,098</b>	<b>2,107</b>	<b>-0.4</b>
Tax	179	178	0.4	129	669	681	-1.8
Effective tax rate (%)	32.0	31.9		31.8	31.9	32.4	
<b>PAT</b>	<b>380</b>	<b>380</b>	<b>0.0</b>	<b>276</b>	<b>1,429</b>	<b>1,425</b>	<b>0.3</b>
<b>EPS (Rs)</b>	<b>24.6</b>	<b>24.6</b>	<b>0.0</b>	<b>17.9</b>	<b>92.5</b>	<b>92.3</b>	<b>0.3</b>

Source: Company data, I-Sec research

- **Expect a 12% volume decline in Q3FY13** to result in a 3% decline in revenue. This would mean 15% sequential volume growth, yet contribution from the 64mm segment remains low at 8-10%. We expect revenue from exports to grow by 20% for the quarter.
- **EBITDA margin to improve by 40bps to 32.4%**, as the gross margin improves by 260bps due to price hikes taken by the company during the quarter. We expect EBITDA to decline by 2% and PAT to remain flat.
- **Key factors to watch:** i) Volume decline in the cigarette business, ii) other overheads spends, and iii) EBITDA margin.

## ITC (ADD)

(QoQ chg: 5.6%; YTD chg: 42.0%)

### Quarterly estimates

(Rs mn, year ending March 31)

	Q3FY13E	Q3FY12	% YoY gr.	Q2FY13	FY13E	FY12	% YoY gr.
<b>Net sales</b>	<b>71,390</b>	<b>61,954</b>	<b>15.2</b>	<b>71,460</b>	<b>288,814</b>	<b>247,984</b>	<b>16.5</b>
Other op. income	577	524	10.0	806	-	-	
<b>Total op. income</b>	<b>71,966</b>	<b>62,478</b>	<b>15.2</b>	<b>72,266</b>	<b>288,814</b>	<b>247,984</b>	<b>16.5</b>
Raw materials	24,468	21,725	12.6	28,644	109,810	96,325	14.0
% of total op. inc.	34.0	34.8		39.6	38.0	38.8	
Employee cost	3,339	2,981	12.0	2,892	14,661	12,654	15.9
% of total op. inc.	4.6	4.8		4.0	5.1	5.1	
Other expenditure	16,056	13,962	15.0	13,847	61,195	54,273	12.8
% of total op. inc.	22.3	22.3		19.2	21.2	21.9	
<b>Total expenditure</b>	<b>43,863</b>	<b>38,667</b>	<b>13.4</b>	<b>45,383</b>	<b>185,666</b>	<b>163,252</b>	<b>13.7</b>
<b>EBITDA</b>	<b>28,103</b>	<b>23,811</b>	<b>18.0</b>	<b>26,883</b>	<b>103,148</b>	<b>84,732</b>	<b>21.7</b>
EBITDA margin (%)	39.1	38.1		37.2	35.7	34.2	
Other income	3,136	2,851	10.0	1,850	13,810	12,007	15.0
<b>PBDIT</b>	<b>31,239</b>	<b>26,662</b>	<b>17.2</b>	<b>28,733</b>	<b>116,959</b>	<b>967,396</b>	<b>20.9</b>
Depreciation	1,930	1,739	11.0	1,889	7,367	6,985	5.5
<b>PBIT</b>	<b>29,309</b>	<b>24,923</b>	<b>17.6</b>	<b>26,844</b>	<b>109,591</b>	<b>897,55</b>	<b>22.1</b>
Interest	150	157	-4.3	233	779	779	0.0
<b>PBT</b>	<b>29,159</b>	<b>24,767</b>	<b>17.7</b>	<b>26,611</b>	<b>108,812</b>	<b>88,975</b>	<b>22.3</b>
Prov for tax	9,039	7,757	16.5	8,247	33,450	27,352	22.3
% of PBT	31.0	31.3		31.0	30.7	30.7	
<b>PAT</b>	<b>20,120</b>	<b>17,010</b>	<b>18.3</b>	<b>18,364</b>	<b>75,363</b>	<b>61,624</b>	<b>22.3</b>
<b>EPS (Rs)</b>	<b>2.6</b>	<b>2.2</b>	<b>18.3</b>	<b>2.4</b>	<b>9.6</b>	<b>7.9</b>	<b>22.3</b>

Source: Company data, I-Sec research

- **Net Revenue growth to improve to 15% in Q3FY13** led by a 19% revenue growth for the cigarette business during the quarter, driven by price hikes (17%) and volume growth (1.5%), compared to 17% revenue growth for the cigarette business in Q2FY13, driven by price hikes (17%) and flat volumes in that quarter. We expect revenues from the non-cigarettes business to grow by 16% in Q3FY13 compared with 25% in Q2FY13. Revenue growth in the non-cigarette business is expected to be driven by 24% growth in other FMCG business segments.
- **EBITDA margin to improve by 94bps to 39%** driven by 36bps expansion in the PBIT margin of the cigarette business and change in segmental mix. We expect other FMCG segments to achieve breakeven in Q3FY13 from loss of Rs464mn in Q3FY12. We expect the cigarette segment to report 20.1% growth in PBIT, in line with our conviction that ITC's cigarette business will continue to witness 18-20% growth in PBIT, compared with the consensus estimate for a 15% PBIT growth. We expect non-cigarette PBIT to grow by 9.1% compared to 2.2% growth in Q2FY13 supported by 16.6% PBIT growth in agri-business.
- **Key factors to watch:** i) Volume growth and PBIT performance of the cigarette business, and ii) PBIT of the other FMCG businesses.



## Godrej Consumer Products (ADD)

(QoQ chg: 2.4%; YTD chg: 86.0%)

### Quarterly estimates

(Rs mn, year ending March 31)

	Q3FY13E	Q3FY12	% YoY gr.	Q2FY13	FY13E	FY12	% YoY gr.
<b>Net Sales</b>	16,871	13,441	25.5	15,953	63,554	48,509	31.0
Other operating income	68	68		50	172	174	
<b>Total Operating Income</b>	<b>16,939</b>	<b>13,509</b>	<b>25.4</b>	<b>16,003</b>	<b>63,726</b>	<b>48,684</b>	<b>30.9</b>
Cost of raw materials	7,735	6,244	23.9	7,676	29,743	22,959	29.5
% of total op. inc.	45.7	46.2		48.0	46.7	47.2	
Employees cost	1,561	1,108	40.9	1,333	5,907	3,923	50.6
% of total op. inc.	9.2	8.2		8.3	9.3	8.1	
Advertisement & Publicity	1,440	1,121	28.4	1,552	5,890	4,499	30.9
% of total op. inc.	8.5	8.3		9.7	9.2	9.2	
Other expenditure	2,847	2,315	23.0	2,953	11,164	8,501	31.3
% of total op. inc.	16.8	17.1		18.5	17.5	17.5	
<b>Total Expenses</b>	<b>13,583</b>	<b>10,788</b>	<b>25.9</b>	<b>13,514</b>	<b>52,703</b>	<b>39,881</b>	<b>32.2</b>
<b>EBITDA</b>	<b>3,356</b>	<b>2,721</b>	<b>23.4</b>	<b>2,490</b>	<b>11,022</b>	<b>8,803</b>	<b>25.2</b>
EBITDA margin (%)	19.8	20.1		15.6	17.3	18.1	
Other Income	140	125	11.9	68	318	357	-10.9
<b>PBDIT</b>	<b>3,496</b>	<b>2,846</b>	<b>22.9</b>	<b>2,558</b>	<b>11,341</b>	<b>9,160</b>	<b>23.8</b>
Depreciation	240	171	40.8	206	890	644	38.2
<b>PBIT</b>	<b>3,256</b>	<b>2,675</b>	<b>21.7</b>	<b>2,351</b>	<b>10,450</b>	<b>8,516</b>	<b>22.7</b>
Interest	243	287	-15.4	200	850	745	14.1
<b>PBT</b>	<b>3,013</b>	<b>2,388</b>	<b>26.2</b>	<b>2,151</b>	<b>9,600</b>	<b>7,771</b>	<b>23.5</b>
Tax	653	555	17.7	476	1,841	2,260	-18.5
% of PBT	21.7	23.2		22.1	19.2	29.1	
<b>PAT before minority int.</b>	<b>2,361</b>	<b>1,833</b>	<b>28.8</b>	<b>1,676</b>	<b>7,759</b>	<b>5,511</b>	<b>40.8</b>
<b>Minority Interest</b>	(162)	(162)		(83)	(558)	(245)	
Extra ordinary items						2,002	
<b>PAT after minority int.</b>	<b>2,198</b>	<b>1,671</b>	<b>31.5</b>	<b>1,593</b>	<b>7,201</b>	<b>7,268</b>	<b>-0.9</b>
<b>EPS (Rs)</b>	<b>6.9</b>	<b>5.7</b>	<b>22.4</b>	<b>4.9</b>	<b>22.8</b>	<b>16.2</b>	<b>40.8</b>

Source: Company data, I-Sec research

- **Revenues to grow 25% in Q2FY13**, supported by a 19% growth in domestic business revenue and 35% growth in international business revenue, backed by consolidation of an additional 20% of *Darling* business.
- **EBITDA margin to decline by 32bps to 19.8%** driven by higher employee costs and advertisement spends. We expect EBITDA margin of the domestic business to improve by 85bps due to mix improvement, but international business will more likely drive down EBITDA margin.
- **Key factors to watch:** i) Performance of the domestic business, ii) EBITDA margin, and iii) commentary on new product launches.



## Nestle India (ADD)

(QoQ chg: 9.1%; YTD chg: 21.5%)

### Quarterly estimates

(Rs mn, year ending December 31)

	Q4CY12E	Q4CY11	% YoY gr.	Q3CY12	CY12E	CY11	% YoY gr.
<b>Revenue</b>	<b>21,965</b>	<b>19,627</b>	<b>11.9</b>	<b>21,241</b>	<b>83,372</b>	<b>74,908</b>	<b>11.3</b>
Raw materials	9,775	8,880	10.1	9,712	37,894	35,894	5.6
% of revenue	44.5	45.2		45.7	45.5	47.9	
Employee cost	1,716	1,461	17.5	1,671	6,600	5,465	20.8
% of revenue	7.8	7.4		7.9	7.9	7.3	
Other expenditure	5,989	5,348	12.0	5,417	21,357	18,595	14.9
% of revenue	27.3	27.2		25.5	25.6	24.8	
<b>Total expenditure</b>	<b>17,480</b>	<b>15,689</b>	<b>11.4</b>	<b>16,800</b>	<b>65,852</b>	<b>59,953</b>	<b>9.8</b>
<b>EBITDA</b>	<b>4,485</b>	<b>3,938</b>	<b>13.9</b>	<b>4,441</b>	<b>17,520</b>	<b>14,955</b>	<b>17.2</b>
EBITDA Margin (%)	20.4	20.1		20.9	21.0	20.0	
Other income	90	101	-10.4	88	603	509	18.5
<b>PBDIT</b>	<b>4,575</b>	<b>4,039</b>	<b>13.3</b>	<b>4,529</b>	<b>18,123</b>	<b>15,464</b>	<b>17.2</b>
Depreciation	750	446	68.2	735	2,893	1,533	88.6
<b>PBIT</b>	<b>3,825</b>	<b>3,593</b>	<b>6.5</b>	<b>3,794</b>	<b>15,231</b>	<b>13,930</b>	<b>9.3</b>
Interest	55	33	66.2	(76)	222	51	334.4
<b>PBT</b>	<b>3,770</b>	<b>3,560</b>	<b>5.9</b>	<b>3,870</b>	<b>15,009</b>	<b>13,879</b>	<b>8.1</b>
Prov for tax	1,169	1,148	1.8	1,197	4,659	4,264	9.3
% of PBT	31.0	32.2		30.9	31.0	30.7	
<b>PAT</b>	<b>2,601</b>	<b>2,412</b>	<b>7.8</b>	<b>2,673</b>	<b>10,350</b>	<b>9,615</b>	<b>7.6</b>
<b>EPS (Rs)</b>	<b>27.0</b>	<b>25.0</b>	<b>7.8</b>	<b>27.7</b>	<b>107.3</b>	<b>99.7</b>	<b>7.6</b>

Source: Company data, I-Sec research

- **Revenues to grow 12% during the quarter**, primarily led by 8% price hikes taken during the year and 3% volume growth.
- **EBITDA margin to improve 35bps to 20.4%** driven by a 75bps expansion in the gross margin owing to moderation in raw material prices, key being a 20% decline in milk prices and the price hikes effected by the company during the year. We expect EBITDA to grow 13.9% and PAT to grow by 7.8% owing to higher interest costs and depreciation.
- **Key factors to watch:** i) Revenue growth, and ii) EBITDA margin.

## Agro Tech Foods (ADD)

(QoQ chg: 21.2%; YTD chg: 37.8%)

### Quarterly estimates

(Rs mn, year ending March 31)

	Q3FY13E	Q3FY12	% YoY gr.	Q2FY13	FY13E	FY2	% YoY gr.
<b>Revenue</b>	<b>2,002</b>	<b>1,816</b>	<b>10.3</b>	<b>1,927</b>	<b>7,580</b>	<b>7,045</b>	<b>7.6</b>
Raw materials	1,372	1,270	8.0	1,327	5,219	4,954	5.4
% of revenue	68.5	70.0		68.9	68.9	70.3	
Employee cost	91	83	9.0	96	358	321	11.6
% of revenue	4.5	4.6		5.0	4.7	4.6	
Advertisement	120	96	25.0	116	433	331	30.9
% of revenue	6.0	5.3		6.0	5.7	4.7	
Other expenditure	240	212	13.3	241	961	901	6.7
% of revenue	12.0	11.7		12.5	12.7	12.8	
<b>Total expenditure</b>	<b>1,823</b>	<b>1,662</b>	<b>9.7</b>	<b>1,779</b>	<b>6,971</b>	<b>6,507</b>	<b>7.1</b>
<b>EBITDA</b>	<b>179</b>	<b>154</b>	<b>16.5</b>	<b>148</b>	<b>609</b>	<b>539</b>	<b>12.9</b>
EBITDA Margin (%)	9.0	8.5		7.7	8.0	7.6	
Other income	5	5	-	9	28	25	15.0
<b>PBDIT</b>	<b>184</b>	<b>159</b>	<b>15.4</b>	<b>157</b>	<b>637</b>	<b>564</b>	<b>13.0</b>
Depreciation	18	15	20.0	16	68	57	19.5
<b>PBIT</b>	<b>166</b>	<b>144</b>	<b>15.1</b>	<b>141</b>	<b>569</b>	<b>507</b>	<b>12.3</b>
Interest	-	0		-	1	1	
<b>PBT</b>	<b>166</b>	<b>144</b>	<b>15.1</b>	<b>141</b>	<b>568</b>	<b>506</b>	<b>12.3</b>
Prov for tax	50	32	56.0	48	176	145	21.9
% of PBT	30.0	22.1		34.4	31.0	28.6	
<b>PAT</b>	<b>116</b>	<b>112</b>	<b>3.4</b>	<b>92</b>	<b>392</b>	<b>361</b>	<b>8.5</b>
<b>EPS (Rs)</b>	<b>4.8</b>	<b>4.6</b>	<b>3.4</b>	<b>3.8</b>	<b>16.1</b>	<b>14.8</b>	<b>8.5</b>

Source: Company data, I-Sec research

- **Revenues to grow 10% during the quarter**, led by a 15% growth in *Actll* and 7% growth in *Sundrop*. The key for Agrotech Foods lies in the revival of growth trajectory of *Actll* and volume-driven growth in *Sundrop*.
- **EBITDA margin to improve 48bps to 9.0%** driven by a 146bps expansion in the gross margin.
- **Key factors to watch:** i) Revenues growth, and ii) EBITDA margin.

## Colgate (ADD)

(QoQ chg: 24.5%; YTD chg: 54.1%)

### Quarterly estimates

(Rs mn, year ending March 31)

	Q3FY13E	Q3FY12	% YoY gr.	Q2FY13	FY13E	FY12	% YoY gr.
<b>Net sales</b>	<b>7,921</b>	<b>6,696</b>	<b>18.3</b>	<b>7,738</b>	<b>31,120</b>	<b>26,239</b>	<b>18.6</b>
Operating income	222	202	10.0	187	796	694	14.7
<b>Total revenue</b>	<b>8,143</b>	<b>6,898</b>	<b>18.1</b>	<b>7,924</b>	<b>31,916</b>	<b>26,932</b>	<b>18.5</b>
Raw materials	3,094	2,651	16.7	3,238	12,480	10,502	18.8
<i>% of total revenue</i>	<i>38.0</i>	<i>38.4</i>		<i>40.9</i>	<i>39.1</i>	<i>39.0</i>	
Employee cost	587	534	10.0	543	2,325	2,156	7.8
<i>% of total revenue</i>	<i>7.2</i>	<i>7.7</i>		<i>6.9</i>	<i>7.3</i>	<i>8.0</i>	
Advertising & sales promotion	1,319	1,075	22.7	889	4,945	4,121	20.0
<i>% of total revenue</i>	<i>16.2</i>	<i>15.6</i>		<i>11.2</i>	<i>15.5</i>	<i>15.3</i>	
Other expenditure	1,303	1,145	13.8	1,496	4,921	4,368	12.7
<i>% of total revenue</i>	<i>16.0</i>	<i>16.6</i>		<i>18.9</i>	<i>15.4</i>	<i>16.2</i>	
<b>Total expenditure</b>	<b>6,304</b>	<b>5,405</b>	<b>16.6</b>	<b>6,166</b>	<b>24,671</b>	<b>21,147</b>	<b>16.7</b>
<b>EBITDA</b>	<b>1,839</b>	<b>1,493</b>	<b>23.2</b>	<b>1,758</b>	<b>7,245</b>	<b>5,785</b>	<b>25.2</b>
<i>EBITDA margin (%)</i>	<i>22.6</i>	<i>21.6</i>		<i>22.2</i>	<i>22.7</i>	<i>21.5</i>	
Other income	136	97	40.0	149	570	507	12.4
<b>PBDIT</b>	<b>1,976</b>	<b>1,590</b>	<b>24.2</b>	<b>1,907</b>	<b>7,815</b>	<b>6,292</b>	<b>24.2</b>
Depreciation	110	99	10.9	106	432	393	9.9
<b>PBIT</b>	<b>1,866</b>	<b>1,491</b>	<b>25.1</b>	<b>1,801</b>	<b>7,383</b>	<b>5,899</b>	<b>25.2</b>
Interest	-	5.7		-	-	15.1	
<b>PBT</b>	<b>1,866</b>	<b>1,485</b>	<b>25.6</b>	<b>1,801</b>	<b>7,383</b>	<b>5,884</b>	<b>25.5</b>
Tax	450	330	36.4	350	1,757	1,419	23.8
<i>Effective tax rate</i>	<i>24.1</i>	<i>22.2</i>		<i>19.4</i>	<i>23.8</i>	<i>24.1</i>	
<b>PAT</b>	<b>1,416</b>	<b>1,156</b>	<b>22.5</b>	<b>1,451</b>	<b>5,626</b>	<b>4,465</b>	<b>26.0</b>
<b>EPS (Rs)</b>	<b>10.4</b>	<b>8.5</b>	<b>22.5</b>	<b>10.7</b>	<b>41.4</b>	<b>32.8</b>	<b>26.0</b>

Source: Company data, I-Sec research

- **Revenues to grow 18.1% in Q3FY13**, led by a 14% volume growth in the toothpaste business.
- **EBITDA margin to improve by 94bps to 22.6%** driven by a 53bps improvement in gross margin and savings in employee-to-sales ratio. We expect EBITDA to grow by 23.2% and PAT to grow by 22.5% during the quarter.
- **Key factors to watch:** i) Volume growth in the toothpaste business, ii) advertisement spends, and iii) gross margin and EBITDA margin.

## Hindustan Unilever (REDUCE)

(QoQ chg: -4.5%; YTD chg: 30.3%)

### Quarterly estimates

(Rs mn, year ending March 31)

	Q3FY13E	Q3FY12	% YoY gr.	Q2FY13	FY13E	FY12	% YoY gr.
<b>Net sales</b>	<b>66,551</b>	<b>58,527</b>	<b>13.7</b>	<b>61,554</b>	<b>254,032</b>	<b>217,356</b>	<b>16.9</b>
Other Operating Income	1,358	849	60.0	1,554	5,559	3,808	46.0
<b>Total Operating Income</b>	<b>67,909</b>	<b>59,376</b>	<b>14.4</b>	<b>63,108</b>	<b>259,592</b>	<b>221,164</b>	<b>17.4</b>
Raw Mat	34,498	30,751	12.2	32,695	133,714	117,378	13.9
% of total op. inc.	50.8	51.8		51.8	51.5	53.1	
Employee cost	3,125	2,741	14.0	3,305	12,895	11,073	16.5
% of total op. inc.	4.6	4.6		5.2	5.0	5.0	
Advertisement	8,285	6,902	20.0	7,690	32,645	26,348	23.9
% of total op. inc.	12.2	11.6		12.2	12.6	11.9	
Other expenditure	10,530	9,278	13.5	9,652	38,510	33,452	15.1
% of total op. inc.	15.5	15.6		15.3	14.8	15.1	
<b>Total Expenditure</b>	<b>56,438</b>	<b>49,671</b>	<b>13.6</b>	<b>53,341</b>	<b>217,763</b>	<b>188,250</b>	<b>15.7</b>
<b>EBITDA</b>	<b>11,471</b>	<b>9,705</b>	<b>18.2</b>	<b>9,767</b>	<b>41,828</b>	<b>32,913</b>	<b>27.1</b>
EBITDA Margin (%)	16.9	16.3		15.5	16.1	14.9	
Other Income	1,001	801	25.0	1,488	5,548	2,783	99.3
<b>PBDIT</b>	<b>12,472</b>	<b>10,506</b>	<b>18.7</b>	<b>11,255</b>	<b>47,376</b>	<b>35,697</b>	<b>32.7</b>
Depreciation	580	568	2.1	577	2,313	2,183	6.0
<b>PBIT</b>	<b>11,892</b>	<b>9,938</b>	<b>19.7</b>	<b>10,678</b>	<b>45,063</b>	<b>33,514</b>	<b>34.5</b>
Interest	63	5		63	243	12	
<b>PBT</b>	<b>11,829</b>	<b>9,933</b>	<b>19.1</b>	<b>10,615</b>	<b>44,820</b>	<b>33,502</b>	<b>33.8</b>
Prov for Tax	2,851	2,271	25.5	2,561	11,205	7,776	44.1
% of PBT	24.1	22.9		24.1	25.0	23.2	
<b>PAT</b>	<b>8,978</b>	<b>7,662</b>	<b>17.2</b>	<b>8,053</b>	<b>33,615</b>	<b>25,725</b>	<b>30.7</b>
Extraordinary Item	-	(124)		16	-	1,189	
<b>PAT After extraordinary</b>	<b>8,978</b>	<b>7,538</b>	<b>19.1</b>	<b>8,069</b>	<b>33,615</b>	<b>26,914</b>	<b>24.9</b>
<b>EPS (Rs)</b>	<b>4.16</b>	<b>3.55</b>	<b>17.2</b>	<b>3.73</b>	<b>15.57</b>	<b>11.91</b>	<b>30.7</b>

Source: Company data, I-Sec research

- **Revenues to grow at 14% in Q3FY13**, led by a 19% growth in the HPC business while the overall business post 8% volume growth during the quarter. We expect revenue from the soap and detergent segment to grow by 22% supported by volume growth, as the company continues to benefit from shift in consumer preference from the unorganised to the organised market. Revenue from the personal products segment is likely to grow by 15% during the quarter, supported by the early onset of winter.
- **EBITDA margin to improve by 55bps to 16.9%** driven by a 99bps expansion in the gross margin; however, the A:S ratio should increase by 58bps to 12.2%. We expect the PBIT margin of the soap and detergent segment to improve by 105bps to 14.5%, while the margin of the personal products segment is likely to decline by 88bps to 25% during the quarter.
- **Key factors to watch:** i) Volume growth, ii) PBIT margin of the soap and detergent segment, and iii) overall gross margin and EBITDA margin.

## Stock performance and valuations

**Table 1: Stock performance**

	Absolute performance (%)			Relative to Sensex (%)		
	MoM	QoQ	YoY	MoM	QoQ	YoY
ITC	(3.6)	5.6	42.7	(5.6)	1.1	15.4
HUL	(1.1)	(4.5)	30.0	(3.2)	(8.6)	5.1
Nestle	6.1	9.1	21.4	3.9	4.5	(1.9)
Dabur	0.5	0.7	28.4	(1.6)	(3.7)	3.8
GCPL	(1.5)	2.4	87.5	(3.5)	(2.0)	51.6
Colgate	4.3	24.5	54.1	2.1	19.2	24.6
GSK Consumer	2.8	29.0	51.4	0.6	23.5	22.4
Marico	(1.2)	7.2	50.8	(3.3)	2.6	21.9
VST Ind.	5.7	8.0	78.6	3.5	3.4	44.4
ATFL	9.8	21.2	31.8	7.5	16.0	6.5

Source: Bloomberg, I-Sec research

**Table 2: Valuation summary for stocks under coverage**

	Reco	Target Price (Rs)	Price (Rs)	EPS (Rs)			P/E (x)			EV/E (x)		
				FY12	FY13E	FY14E	FY12	FY13E	FY14E	FY12	FY13E	FY14E
ITC	ADD	306	286	7.9	9.6	11.8	36.3	29.7	24.3	26.1	21.4	17.5
HUL	REDUCE	558	530	11.9	15.6	17.9	44.5	34.0	29.7	34.2	26.8	22.8
Nestle	ADD	5,129	4,942	99.7	107.3	126.8	49.6	46.0	39.0	32.4	27.4	22.9
Dabur	BUY	167	130	3.7	4.4	5.5	35.1	29.3	23.8	26.1	22.0	17.9
GCPL	ADD	764	719	16.2	22.8	28.6	44.4	31.5	25.2	29.7	23.1	18.3
Colgate	ADD	1,486	1,533	32.8	41.4	49.4	46.7	37.1	31.0	35.5	28.3	23.4
GSK Consumer	BUY	4,510	3,835	86.0	107.8	134.5	44.6	35.6	28.5	35.7	30.4	23.7
Marico	BUY	262	220	5.2	6.4	8.6	42.4	34.3	25.5	29.2	22.3	17.5
VST Ind.	BUY	2,260	1,945	92.3	92.5	141.2	21.1	21.0	13.8	14.4	14.3	9.2
ATFL	ADD	504	512	14.8	16.1	20.6	34.5	31.8	24.9	22.4	19.7	15.2

Source: Prices as on 02/01/2013 (BSE); I-Sec research

**Table 1: I-Sec vs Bloomberg consensus**

PAT (Rs.mn)	I-Sec estimates			Consensus estimates			% Variance		
	FY13E	FY14E	FY15E	FY13E	FY14E	FY15E	FY13E	FY14E	FY15E
ITC	75,363	92,103	112,074	73,407	87,480	104,070	3	5	8
HUL	33,615	38,587	43,958	32,678	37,446	42,261	3	3	4
Nestle	10,350	12,223	15,241	10,945	12,969	15,537	(5)	(6)	(2)
Dabur	7,733	9,501	11,572	7,692	9,226	10,841	1	3	7
GCPL	7,759	9,716	11,871	7,414	9,262	11,239	5	5	6
Colgate	5,626	6,723	7,668	5,379	6,221	7,185	5	8	7
GSK Consumer	4,534	5,655	7,030	4,400	5,162	6,156	3	10	14
Marico	4,131	5,557	7,161	4,179	5,113	6,328	(1)	9	13
VST Ind.	1,429	2,181	2,825	1,500	1,978	2,332	(5)	10	21
ATFL	392	501	591	418	495	694	(6)	1	(15)

Source: Bloomberg, Company data and I-Sec research

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