

# GLAXOSMITHKLINE CONSUMER

## Margin **BOOST**

India Equity Research | Consumer Goods



Edelweiss  
Ideas create, values protect

GSK Consumer's (GSK) Q3CY12 sales were bang in line with our expectation, though PAT surpassed estimate. Gross and EBITDA margins both expanded 46bps and 75bps YoY, respectively. Key positives include: (1) continued improvement in performance of *Boost*; (2) biscuits posting a strong 29% YoY growth (23% volume growth YoY); and (3) auxiliary sales surging 24% YoY (led by *Sensodyne* and *Eno*). Key negatives include muted overall volume growth (also impacted by CSD) and subdued exports (demand slowdown in Sri Lanka; likely to revive in Q1CY13). We like GSK's aggression in enhancing brand equity—in Q3CY12, *Boost* tied up with Formula 1 Vodafone McLaren Mercedes team for the Indian Grand Prix, *Horlicks'* USP changed from qualitative to new clinical backed claims. We believe entry into the super premium MFD category and other food products (likely muesli in our view) will be new growth drivers. Maintain 'BUY'.

### CSD and exports continue to spoil the show

Sales grew 15.2% YoY with a muted 6% volume growth in Q3CY12 (domestic value growth of 16.2% YoY with 5% volume growth). EBITDA margin jumped 75bps YoY owing to reduction in other expenses (down 53bps YoY). Ad spends as percentage of sales remained flat YoY. GSK is sharpening focus on rural (contributing 26-27% to revenue) with specialised combo packs and increased distribution (increased reach by 10,000 new villages to 60,000 villages).

### Boost and biscuit on continue to perform well

*Horlicks* grew 16% YoY in Q3CY12 with 4.5% volume growth. *Boost* posted an impressive 8.5% volume growth (overall growth 22%). Oats continued to be at the third position in the South with 11% market share. Foodles clocked revenue of INR60mn. Biscuits continued to post a good show, growing at 29% YoY (31% and 27% YoY in Q1CY12 and Q2CY12, respectively) with an impressive 23% volume growth.

### Outlook and valuations: Buoyant; maintain 'BUY'

We like GSK's cash position of INR13.5bn, which is likely to be used for new launches and possible acquisitions. At CMP, the stock is trading at 29.4x CY12E and 24.7x CY13E. We maintain 'BUY' recommendation and 'Sector Performer' rating on the stock.

#### Financials

(INR mn)

Year to Dec.	Q3CY12	Q3CY11	% change	Q2CY12	% change	CY11	CY12E	CY13E
Net sales	8,577	7,446	15.2	7,584	13.1	27,649	31,777	36,806
EBITDA	1,706	1,425	19.7	1,394	22.4	5,043	5,907	6,911
PAT	1,286	1,030	24.8	1,066	20.6	3,552	4,323	5,148
Dil. EPS (INR)	30.6	24.5	24.8	25.3	20.6	84.4	102.8	122.4
Diluted P/E (x)						35.8	29.4	24.7
EV/EBITDA (x)						23.0	19.5	16.5
ROAE (%)						34.9	35.5	35.0

#### EDELWEISS 4D RATINGS

Absolute Rating	BUY
Rating Relative to Sector	Performer
Risk Rating Relative to Sector	Medium
Sector Relative to Market	Underweight

#### MARKET DATA (R: GLSM.BO, B: SKB IN)

CMP	: INR 3,020
Target Price	: INR 3,427
52-week range (INR)	: 3,200 / 2,179
Share in issue (mn)	: 42.1
M cap (INR bn/USD mn)	: 127/ 2,363
Avg. Daily Vol.BSE/NSE('000)	: 27.0

#### SHARE HOLDING PATTERN (%)

	Current	Q2CY12	Q1CY12
Promoters *	43.2	43.2	43.2
MF's, FI's &	17.4	18.4	16.5
FII's	14.5	13.3	15.5
others	24.9	25.2	24.8
* Promoters pledged share: (% of share in issue)	:		NIL

#### PRICE PERFORMANCE (%)

	Stock	Nifty	EW Consumer Goods Index
1 month	0.4	(1.3)	4.9
3 months	12.3	7.7	13.5
12 months	30.4	7.4	45.0

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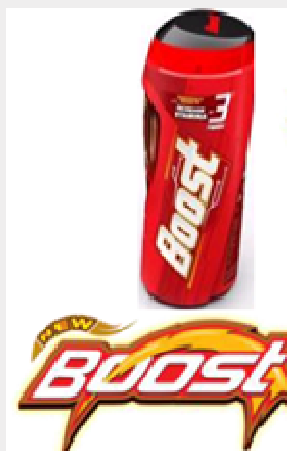
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## GSK Consumer Q3CY12 conference call | Key takeaways

**Sales growth:** GSK reported net sales growth of 15.2% YoY to INR8.6bn; volume growth of 6% in Q3CY12 (domestic value growth of 16.2% YoY with 5% volume growth). The slowdown in growth was due to issues in the CSD segment (contributing ~8% of total sales) which declined 8%. The recent volume growth slowdown is likely to increase again to 7-8% primarily due to correction in CSD ordering and new launches. Foods contributing 6.4% to sales grew at 35% YoY while exports contributing 5% to sales grew at 3% YoY (against 12% decline in Q2CY12).

**MFD:** MFD posted volume growth of 5% (6.5% ex-CSD impact) with white contributing ~75% to total MFD sales. GSK is planning to enter the super premium end of the MFD segment (priced above INR1,000 per kg) having 10% share of total MFD (against 6-7% share a year ago); growing at 33% YoY. Sachets contributing 5% of total sales grew at 45% YoY.

**Horlicks:** Horlicks grew 16% YoY in Q3CY12 with 4.5% YoY volume growth (in January, price increased from INR155 to INR162, which was hiked to INR171 per 500g pack in July). Ex-CSD volume growth was ~6% YoY. Horlicks chocolate flavour positioned as a nutritional drink for Northern and Western markets has performed satisfactorily.

**Boost:** Boost posted an impressive 8.5% volume growth (overall growth of 22%). It has been growing ahead of Horlicks due to base effect as well as marketing initiatives.

**Biscuits:** Biscuits continued to post a good show, up 29% YoY (grew 31% and 27% YoY in Q1CY12 and Q2CY12, respectively) with an impressive 23% volume growth. GSK is the market leader in the milk biscuits category. It launched *Nutribic* in Mumbai, Delhi and southern markets after a minor pause on its soft launch in Chennai due to copyright and trademark infringement allegations raised by Britannia (GSK later proved the allegations to be false). *Nutribic*, launched in two variants—high fibre digestive and diabetic—garnered 8% market share within one quarter of launch. Its distribution reach is ~24,000 outlets (against 750,000 GSK's total reach). Entry into this premium category is likely to improve margin.

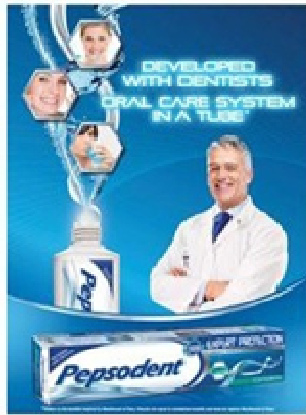
**Oats:** Oats, (present in four South Indian states) continued to be at the third position in the region with 11% market share (Pepsi's *Quaker* and Marico's *Saffola* being the top two).

**Foodles:** Foodles contributed ~INR60mn (INR50mn in Q2CY12), dipped ~24% YoY. The company has shifted focus to niche multi-grain offering which earns higher gross margin, but not competing in the mass noodles segment.

**Price hike:** The company had initiated a price hike in July (prices of *Horlicks* and *Boost* raised from INR162 to INR171) to mitigate pressure from the burden of rising taxation (excise duty, service tax and VAT in certain states). Post that, there has been no pricing action.

**Exports:** Exports grew 3% YoY. Sri Lanka, a key market with GSK holding 22% market share, is also facing slowdown, denting exports. The company expects the scenario to normalise in Q1CY13. In Bangladesh, GSK, which holds 82% market share, is witnessing phenomenal growth.

**Depreciation:** Depreciation declined 34% YoY as benefit of depreciation charged on account of Sonapat (Haryana) plant has exhausted.



### Pepsodent Expert protection range

Competition intensifies for Sensodyne (toothpaste sensitive segment )



**Rural performance:** Rural market contributes 26-27% to total sales. GSK is increasing focus with specialised combo packs and increased distribution. It plans to increase penetration in rural by 10,000 villages from the current 50,000.

**Business auxiliary income:** GSK earned INR280mn business auxiliary income in Q3CY12 (up 24% YoY), led by good growth in *Sensodyne* (market share same as *Colgate sensitive*) and *Eno*.

**RM index:** RM inflation for Q1CY12, Q2CY12 and Q3CY12 was 9%, 12% and 8% YoY, respectively. Management expects Q4CY12 inflation to drop to 5% YoY due to sequential correction in RM costs.

**Regional focus:** Realising that there exists a good scope to increase market share in North and West regions, GSK is increasing its penetration and distribution reach, making its products more relevant to target masses. It relies on powerful communication for impact.

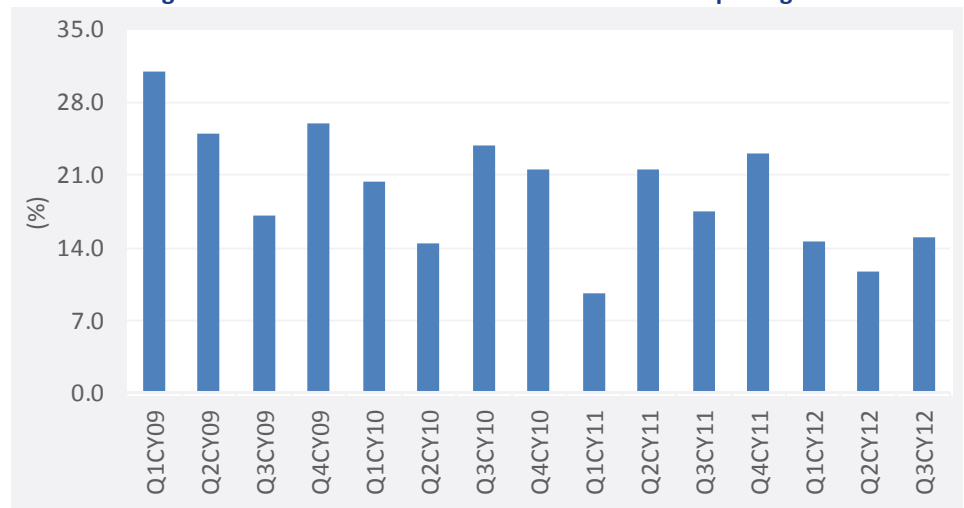
**Capex:** GSK has planned a capex of INR1,250mn in CY12E, of which INR600mn has been spent till Q3CY12. In CY13, capex is likely to be ~INR2,700mn. The capex is for brownfield expansion only.

**Cash position:** GSK is sitting on INR13.5bn cash which is to be used for new launches and possible acquisitions.

### Outlook and valuations: Buoyant; maintain 'BUY'

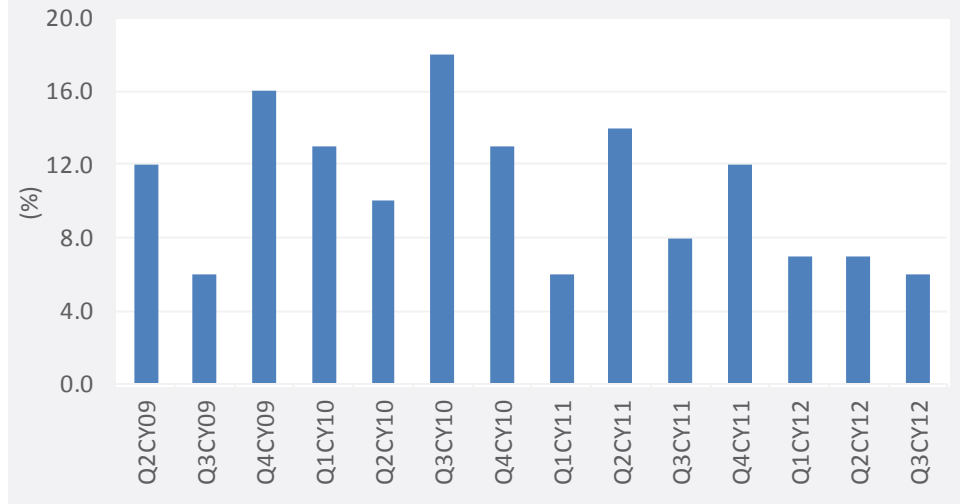
We assign higher multiple of 28x (25.5x earlier) primarily due to marked increase in business auxiliary income, margin expansion due to softening RM inflation and investment in new growth drivers (foray into the super premium MFD category and others food products likely Muesli, in our view) arriving at target price of INR3,427 (earlier INR2,900). We like GSK's cash position of INR13.5bn which is likely to be used for new launches and possible acquisitions. At CMP, the stock is trading at 29.4x CY12E and 24.7x CY13E. We maintain 'BUY' recommendation and 'Sector Performer' rating on the stock.

**Chart 1: Sales growth slows YoY due to CSD issues and muted exports growth**

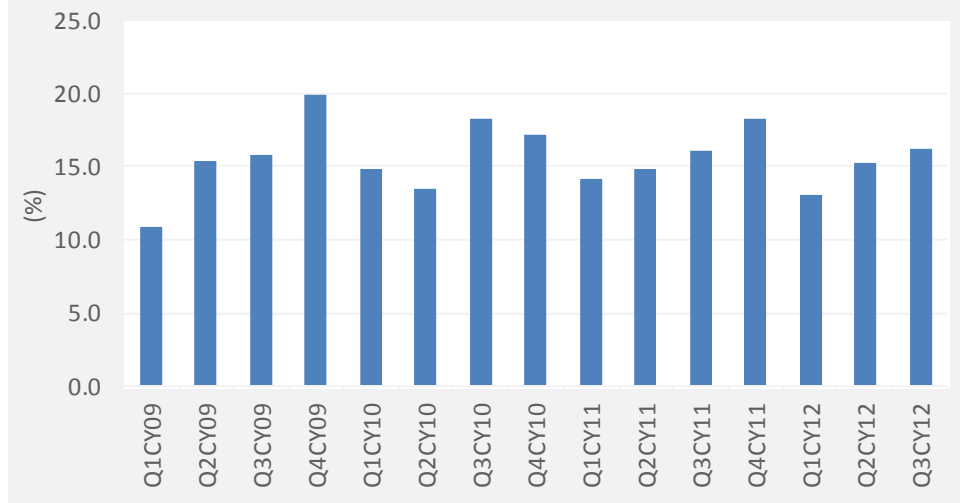


Source: Company, Edelweiss research

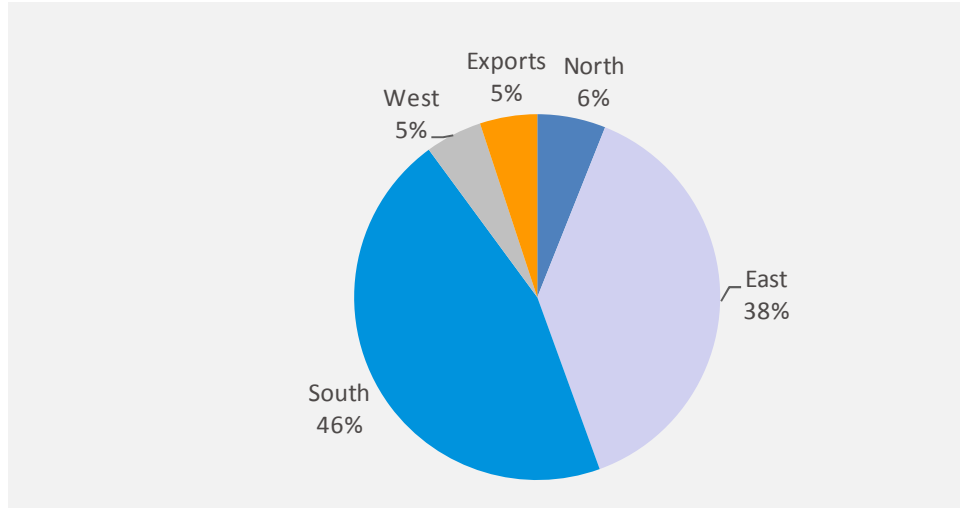
**Chart 2: MFD volume growth moderate**



**Chart 3: Ad spends flat YoY**

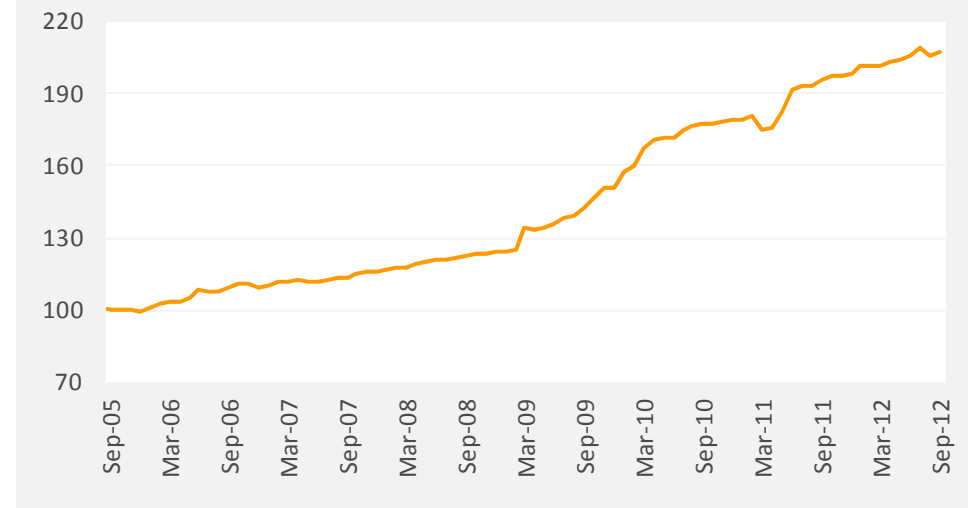


**Chart 4: Area-wise revenue contribution (%)**

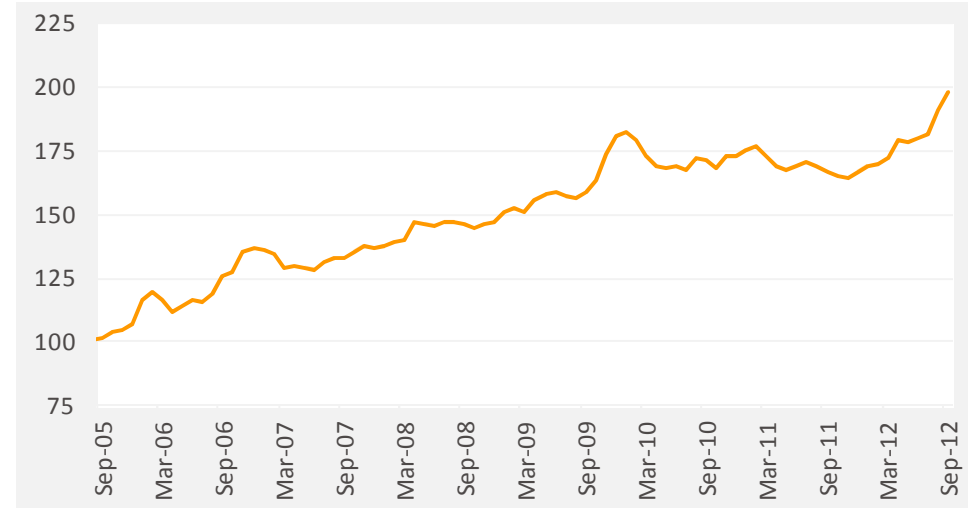


Source: Company, Edelweiss research

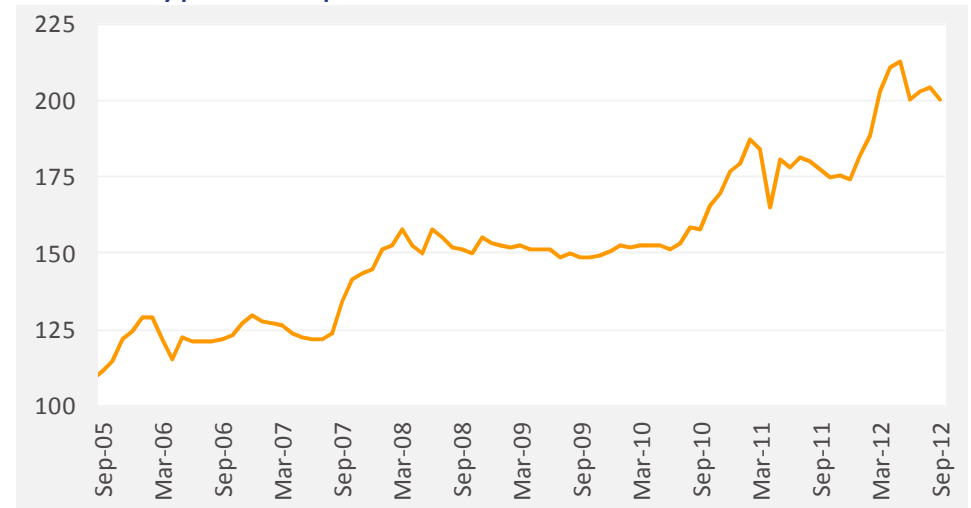
**Chart 5: Milk price up 7% YoY**



**Chart 6: Wheat price index continue upward trend**

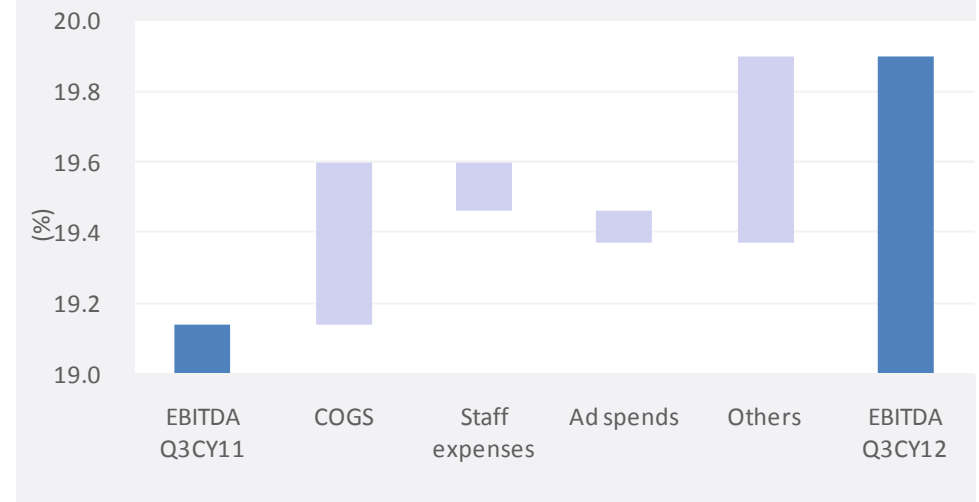


**Chart 7: Barley price index up YoY**



Source: Company, Edelweiss research

Chart 8: EBITDA margin up 75bps YoY



Source: Company, Edelweiss research



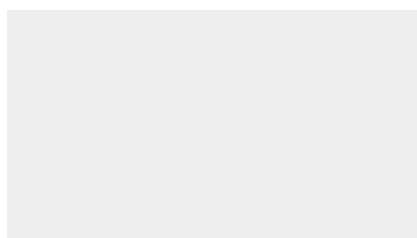
**Financial snapshot**

(INR mn)

Year to December	Q3CY12	Q3CY11	% Change	Q2CY12	% Change	CY11	CY12E	CY13E
Net revenues	8,275	7,201	14.9	7,297	13.4	26,855	30,781	35,611
Other operating income	302	245	23.0	287	5.1	794	996	1,195
Total operating income	8,577	7,446	15.2	7,584	13.1	27,649	31,777	36,806
Cost of goods sold	3,104	2,729	13.8	2,703	14.8	10,227	11,640	13,410
Advt. sales & promotions	1,386	1,196	15.9	1,161	19.4	4,373	5,033	5,876
Employee expenses	775	663	17.0	791	(2.0)	2,584	3,010	3,486
Other expenses	1,605	1,433	12.0	1,536	4.5	5,421	6,187	7,122
Total expenditure	6,871	6,021	14.1	6,191	11.0	22,606	25,870	29,895
EBITDA	1,706	1,425	19.7	1,394	22.4	5,043	5,907	6,911
Depreciation	77	117	(33.9)	86	(9.9)	460	364	466
EBIT	1,629	1,309	24.5	1,308	24.5	4,583	5,543	6,445
Other income (incl. associates)	276	231	19.5	285	(3.2)	854	950	1,288
Interest	3	10	(73.8)	8	(67.5)	35	42	50
Profit before tax	1,903	1,530	24.4	1,585	20.0	5,402	6,452	7,683
Tax	617	499	23.6	519	18.9	1,851	2,129	2,535
Net profit	1,286	1,030	24.8	1,066	20.6	3,552	4,323	5,148
Diluted EPS (INR)	30.6	24.5	24.8	25.3	20.6	84.4	102.8	122.4
<b>As % of net revenues</b>								
COGS	36.2	36.7		35.6		37.0	36.6	36.4
Employee cost	9.0	8.9		10.4		9.3	9.5	9.5
Other expenses	18.7	19.2		20.2		19.6	19.5	19.4
Adv. & sales promotions	16.2	16.1		15.3		15.8	15.8	16.0
EBITDA	19.9	19.1		18.4		18.2	18.6	18.8
EBIT	19.0	17.6		17.3		16.6	17.4	17.5
PBT	22.2	20.5		20.9		19.5	20.3	20.9
Net profit	15.0	13.8		14.1		12.8	13.6	14.0
Tax rate	32.4	32.6		32.8		34.3	33.0	33.0

**Change in Estimates**

	FY12E			FY13E			Comments
	New	Old	% change	New	Old	% change	
Net Revenue	30,781	30,672	0.4	35,611	35,221	1.1	Higher increase in auxiliary income
EBITDA	5,907	5,809	1.7	6,911	6,726	2.7	Softening milk prices
EBITDA Margin	18.6	18.3		18.8	18.5		
Net profit	4,323	4,116	5.0	5,148	4,790	7.5	Stronger other income; flow through of margin expansion
PAT Margin	13.6	13.0		13.8	13.2		
Capex	1250	2,489	(49.8)	2700	1,500	80.0	Management tweaked guidance



## Company Description

GSK is a leading healthcare company in India with GlaxoSmithKline, UK, as parent. It is India's leading health food drinks manufacturer (~68% market share in HFD) with growing presence in categories like biscuits, noodles, snacks, sports drinks, glucose powder and OTCs. The company has manufacturing facilities in Nabha (Punjab), Rajamundry (Andhra Pradesh) and Sonapat (Haryana). It has a strong marketing and distribution network in India with direct coverage of over 750,000 retail outlets.

## Investment Theme

GSK Consumer's broad product portfolio provides a good play on Indian processed food spending by virtue of its strong presence in under-penetrated and high-growth categories. Its positioning on the 'health and wellness' platform backed by strong brand image of key brand *Horlicks* is progressive. This, combined with demonstrated ability to enter new categories and continuous innovations, justifies robust growth and rerating of the stock over the past five years.

## Key Risks

### Raw material price inflation

With milk powder, milk and malt extract being major cost drivers for GSK, food inflation is one of the key risks faced by the company. In the past one year, at the wholesale level, milk prices surged 20%.

### Competition getting stiffer

The processed food sector is growing significantly and all multinational as well as domestic companies are aggressively innovating and enhancing efforts to increase contribution from this segment. This aspect makes competition stiffer in this segment as companies have to innovate towards product development.

### Competition to HFDs from other categories

The malted health food drink category is still at low penetration levels and faces resistance from categories like tea, coffee, juices and breakfast cereals.

### Product failure

Apart from HFD, new products face greater risk of failure. *Horlicks Chill Doodh* and *Lucozade* have failed to make an impact in the market.

### Economic slowdown

Urban sales contribute 73-74% to revenue. A slowdown in economic growth may negatively affect the company's business.



## Financial Statements

### Key assumptions

Macro Assumptions	FY10	FY11	FY12	FY13E	FY14E
GDP(Y-o-Y %)	8.4	8.4	6.5	5.8	6.5
Inflation (Avg)	3.6	9.9	8.8	7.8	6.0
Repo rate (exit rate)	5.00	6.75	8.50	7.50	6.80
USD/INR (Avg)	47.4	45.6	47.9	53.5	52.0
Company Assumptions	CY09	CY10	CY11	CY12E	CY13E
Volume growth (% YoY)	11.4	14.8	9.1	7.0	9.3
Pricing change (% YoY)	7.7	5.3	7.4	7.9	6.4
COGS as % of sales	36.1	36.5	37.0	36.6	36.4
A&P as % of sales	13.5	15.6	15.8	15.8	16.0

### Income statement

(INR mn)

Year to December	CY09	CY10	CY11	CY12E	CY13E
Net revenue	19,215	23,061	26,855	30,781	35,611
Other Operating Income	557	624	794	996	1,195
Total operating income	19,772	23,685	27,649	31,777	36,806
Materials costs	7,140	8,649	10,227	11,640	13,410
Employee costs	2,007	2,297	2,584	3,010	3,486
Advertisement & sales costs	2,675	3,706	4,373	5,033	5,876
Other Expenses	4,327	4,668	5,421	6,187	7,122
EBITDA	3,623	4,365	5,043	5,907	6,911
Depreciation & Amortization	420	397	460	364	466
EBIT	3,203	3,968	4,583	5,543	6,445
Other income	376	576	854	950	1,288
Interest expenses	41	26	35	42	50
Profit before tax	3,539	4,518	5,402	6,452	7,683
Provision for tax	1,211	1,520	1,851	2,129	2,535
Net profit	2,328	2,999	3,552	4,323	5,148
Diluted EPS (INR)	55.4	71.3	84.4	102.8	122.4
Dividend per share (INR)	18.0	50.0	35.0	41.1	49.0
Dividend payout (%)	32.5	70.1	41.4	40.0	40.0

### Common size metrics - as % of net revenues

Year to December	CY09	CY10	CY11	CY12E	CY13E
Materials costs	36.1	36.5	37.0	36.6	36.4
Advertising & sales costs	13.5	15.6	15.8	15.8	16.0
EBITDA margins	18.3	18.4	18.2	18.6	18.8
EBIT margins	16.2	16.8	16.6	17.4	17.5
Net profit margins	11.8	12.7	12.8	13.6	14.0

### Growth ratios (%)

Year to December	CY09	CY10	CY11	CY12E	CY13E
Rev. growth (%)	24.8	19.8	16.7	14.9	15.8
EBITDA	32.1	20.5	15.5	17.1	17.0
Net profit	23.6	28.8	18.4	21.7	19.1
EPS growth (%)	23.6	28.8	18.4	21.7	19.1

<b>Balance sheet</b>					
(INR mn)					
<b>As on 31st December</b>	<b>CY09</b>	<b>CY10</b>	<b>CY11</b>	<b>CY12E</b>	<b>CY13E</b>
Equity capital	421	421	421	421	421
Reserves & surplus	8,630	9,180	11,021	13,321	16,059
Shareholders funds	9,051	9,600	11,442	13,741	16,480
<b>Sources of funds</b>	<b>9,051</b>	<b>9,600</b>	<b>11,442</b>	<b>13,741</b>	<b>16,480</b>
Gross block	5,585	5,990	6,367	7,617	10,317
Depreciation	3,640	3,967	4,360	4,723	5,190
Net block	1,945	2,023	2,007	2,893	5,127
Capital work in progress	378	1,083	1,711	2,000	1,800
Investments	-	-	-	-	-
Inventories	2,660	3,120	3,700	3,900	4,502
Sundry debtors	314	505	992	850	973
Cash and equivalents	8,198	9,761	10,797	11,711	12,711
Loans and advances	338	501	721	721	721
Other current assets	220	344	492	492	492
Total current assets	11,729	14,231	16,701	17,673	19,399
Sundry creditors and others	3,753	4,704	6,663	6,511	7,532
Provisions	1,358	3,300	2,712	2,712	2,712
Total current liabilities & provisions	5,111	8,004	9,376	9,224	10,245
Net current assets	6,618	6,227	7,325	8,449	9,154
Miscellaneous expenditure	110	267	399	399	399
<b>Uses of funds</b>	<b>9,051</b>	<b>9,600</b>	<b>11,442</b>	<b>13,741</b>	<b>16,480</b>
Book value per share (INR)	215.2	228.3	272.1	326.7	391.9

<b>Free cash flow</b>					
(INR mn)					
<b>Year to December</b>	<b>CY09</b>	<b>CY10</b>	<b>CY11</b>	<b>CY12E</b>	<b>CY13E</b>
Net profit	2,328	2,999	3,552	4,323	5,148
Add : Non cash charge	(96)	(201)	(299)	405	516
Depreciation	420	397	460	364	466
Others	(517)	(598)	(759)	42	50
Gross cash flow	2,231	2,798	3,253	4,728	5,664
Less: Changes in WC	1,481	299	893	(210)	295
Operating cash flow	3,712	3,097	4,146	4,518	5,959
Less: Capex	409	1,110	1,004	1,539	2,500
<b>Free cash flow</b>	<b>3,303</b>	<b>1,986</b>	<b>3,142</b>	<b>2,979</b>	<b>3,459</b>

<b>Cash flow metrics</b>					
<b>Year to December</b>	<b>CY09</b>	<b>CY10</b>	<b>CY11</b>	<b>CY12E</b>	<b>CY13E</b>
Operating cash flow	4,002	3,262	3,872	4,518	5,959
Investing cash flow	(216)	(794)	(362)	(1,539)	(2,500)
Financing cash flow	(296)	(905)	(2,475)	(2,065)	(2,459)
Net cash flow	3,491	1,563	1,036	914	1,000
Capex	(409)	(1,110)	(1,004)	(1,539)	(2,500)
Dividends paid	(886)	(2,452)	(1,711)	(2,023)	(2,409)

**Profitability & efficiency ratios**

Year to December	CY09	CY10	CY11	CY12E	CY13E
ROAE (%)	28.1	32.8	34.9	35.5	35.0
ROACE (%)	38.3	42.6	43.6	44.0	42.7
Inventory day	52	46	46	46	46
Debtors days	7	6	10	10	10
Payable days	71	80	92	92	92
Cash conversion cycle (days)	(12)	(28)	(35)	(36)	(36)
Current ratio	2.3	1.8	1.8	1.9	1.9

**Operating ratios**

Year to December	CY09	CY10	CY11	CY12E	CY13E
Total asset turnover	2.4	2.5	2.6	2.5	2.4
Fixed asset turnover	9.5	11.6	13.3	12.6	8.9
Equity turnover	2.3	2.5	2.6	2.4	2.4

**Valuation parameters**

Year to December	CY09	CY10	CY11	CY12E	CY13E
Diluted EPS (INR)	55.4	71.3	84.4	102.8	122.4
Y-o-Y growth (%)	23.6	28.8	18.4	21.7	19.1
CEPS (INR)	65.3	80.7	95.4	111.4	133.5
Diluted PE (x)	54.6	42.4	35.8	29.4	24.7
Price/BV (x)	14.0	13.2	11.1	9.2	7.7
EV/Sales (x)	6.2	5.1	4.3	3.7	3.2
EV/EBITDA (x)	32.8	26.9	23.0	19.5	16.5
Dividend yield (%)	0.6	1.7	1.2	1.4	1.6

**Peer comparison valuation**

Company	Market Price (INR)	Mcap (INR bn)	P/E (x)		EV/EBITDA(x)		ROE (%)	
			FY13E	FY14E	FY13E	FY14E	FY13E	FY14E
<b>Consumer Goods</b>								
Asian Paints	3,879	372	32.4	26.7	20.7	17.1	38.2	38.9
Colgate	1,280	174	31.7	27.5	23.7	19.9	117.1	116.7
Dabur	125	217	28.7	24.1	20.2	17.0	40.7	38.4
Emami	577	87	29.1	23.7	24.1	19.8	40.3	43.7
GSK Consumer*	3,020	127	29.4	24.7	19.5	16.5	35.5	35.0
Godrej Consumer	718	244	32.0	26.6	23.2	19.1	22.9	23.6
Hindustan Unilever	537	1162	34.9	30.3	26.7	22.7	78.5	70.9
ITC	279	2196	28.9	24.6	18.6	15.7	37.5	39.6
Marico	213	138	33.2	27.7	22.0	18.1	30.3	28.5
Nestle*	4,726	456	40.4	33.3	25.6	20.8	74.7	67.4
United Spirits	1,186	155	47.3	34.1	17.9	15.5	6.6	8.6
<b>Consumer Goods - Mean</b>			<b>33.5</b>	<b>27.6</b>	<b>22.0</b>	<b>18.4</b>	<b>47.5</b>	<b>46.5</b>
<b>Consumer Goods - Mean (market cap wtd average)</b>			<b>32.3</b>	<b>27.2</b>	<b>21.7</b>	<b>18.3</b>	<b>50.6</b>	<b>49.2</b>
<b>Consumer Goods - Mean (ex-Nestle)</b>			<b>32.8x</b>	<b>27.0x</b>	<b>21.7x</b>	<b>18.1x</b>	<b>44.8</b>	<b>44.4</b>

\* CY numbers

Source: Edelweiss research

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

### ABSOLUTE RATING

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

### RELATIVE RETURNS RATING

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

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

### RELATIVE RISK RATING

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

Risk ratings are based on Edelweiss risk model

### SECTOR RATING

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





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

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

**Recent Research**

Date	Company	Title	Price (INR)	Recos
30-Oct-12	<b>Colgate Palmolive</b>	Bites more into the toothpaste market; <i>Result Update</i>	1,237	Hold
29-Oct-12	<b>Asian Paints</b>	Volumes recover; margins to follow; <i>Result Update</i>	3,923	Buy
29-Oct-12	<b>Hindustan Unilever</b>	Core story intact; wait for better entry point; <i>Result Update</i>	552	Hold

**Distribution of Ratings / Market Cap**

Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	113	53	19	186
* 1 stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	114	58	14	

**Rating Interpretation**

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

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