

HINDUSTAN UNILEVER

Core story intact; wait for better entry point

India Equity Research | Consumer Goods



Hindustan Unilever's (HUL) sales were in line while PAT surpassed estimate. Key positives include: (1) soaps & detergents (S&D) sales up 22.3% YoY and 191bps YoY jump in margin, highest in past 12 quarters (could expand further due to lower palm oil prices); (2) revival in beverages portfolio; and (3) gross and EBITDA margin expansion of 182bps and 74bps YoY, respectively. Key negatives were: (a) moderation in overall volume growth of 7% YoY (120bps impact due to decline in sales in Canteen Stores (CSD)); (b) slow 12.1% YoY growth in personal products (impacted due to price hike in Fair & Lovely sachet and CSD slowdown. HUL will benefit from focus on innovation, rural distribution and softness of P&G in India. P&G's performance in China (one of their largest markets) continues to lag competitors; hence their aggression in India is likely to be on lower side. However, vindicating our report, *Go Contra; turnaround signals getting louder*, dated May 26, 2010, the stock has since outperformed Nifty ~124%. Hence, we downgrade to 'HOLD' and we will wait for better entry point.

This report also contains Q2FY13 conference call highlights.

CSD budget rationalisation impacts volume growth

HUL's like-to-like revenue (excluding exports business) grew 16.9% YoY. S&D sales rose 22.3% YoY led by double digit growth across all brands. PP sales were impacted by price hike in Fair & Lovely sachets (from INR7 to INR8) and by 220bps due to CSD. Beverages posted 10% YoY growth and margin expanded 91bps YoY. Packaged foods grew ~10.2% YoY; however, margin dipped 471bps YoY. Also, certain discretionary categories within packaged food and personal product portfolio posted some slowdown.

Outlook and valuations: Expensive; downgrade to 'HOLD'

We remain positive from a longer term perspective. However, the stock is trading near its historical high P/E at 31.2x on FY14E. Hence, we are downgrading our recommendation to 'HOLD' from 'BUY' and rate it 'Sector Performer'.

Financials

(INR mn)

Year to March	Q2FY13	Q2FY12	% change	Q1FY13	% change	FY12	FY13E	FY14E
Net rev.	63,108	56,101	12.5	63,788	(1.1)	234,363	269,759	307,826
EBITDA	9,767	8,267	18.2	9,665	1.1	34,836	41,461	48,118
Core profit	8,053	6,445	25.0	7,751	3.9	26,865	33,295	38,287
Dil. EPS (INR)	3.7	3.0	24.9	3.6	3.9	12.4	15.4	17.7
Diluted P/E (x)						44.4	35.9	31.2
EV/EBITDA (x)						33.0	27.5	23.4
ROAE (%)						83.9	78.5	70.9

* Quarterly nos. standalone; annual nos. consolidated

EDELWEISS 4D RATINGS

Absolute Rating	HOLD
Rating Relative to Sector	Performer
Risk Rating Relative to Sector	Low
Sector Relative to Market	Underweight

MARKET DATA (R: HLL.BO, B: HUVR IN)

CMP	: INR 552
Target Price	: INR 566
52-week range (INR)	: 580 / 342
Share in issue (mn)	: 2,161.9
M cap (INR bn/USD mn)	: 1,194 / 22,283
Avg. Daily Vol.BSE/NSE('000)	: 2,607.1

SHARE HOLDING PATTERN (%)

	Current	Q1FY13	Q4FY12
Promoters %	52.5	52.5	52.5
MF's, FI's & BK's	9.0	9.9	10.3
FII's	21.1	20.1	19.4
others	17.4	17.6	17.8
* Promoters pledged share (% of share in issue)	:		NIL

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Consumer Goods Index
1 month	4.8	0.0	4.9
3 months	19.6	12.3	13.5
12 months	61.0	8.9	45.0

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HUL Q2FY13 concall: Key highlights



Volume growth: HUL's domestic consumer business grew 16% YoY with a volume growth of 7% YoY (lowest volume growth in past 11 quarters) on a base of 9.8% YoY growth in Q2FY12. However, volume growth was impacted 120bps due to slowdown in the CSD department (contributes 6% to business). PP also witnessed an impact of 220bps YoY due to CSD issue and volumes were impacted after taking a price hike of ~14.3% in *Fair & Lovely* sachet (price was increased from INR7 to INR 8; this will stabilise in two quarters). **Excluding these issues, volume growth was on track. Growth was also led by modern trade and rural markets.**

Soaps & detergents: S&D grew ~22.3% YoY (ahead of industry growth rate), of which a larger proportion was via pricing. **Margin expanded 191bps YoY to 14.3% (highest in past 12 quarters).** The laundry portfolio delivered a firm double digit growth across all brands, with both *Surf* and *Rin* delivering a double digit volume growth. *Comfort* fabric conditioners portfolio continued to perform well. Household care portfolio registered a robust double digit growth. Skin cleansing continued good growth momentum. *Lifebuoy* recorded one of its highest growth rates and *Dove* and *Pears* growth was driven by premiumisation. Ad spends in the overall S&D category have been at the highest level in the past 15 quarters, largely due to reinvestment of gross margin expansion into activations and promotions. Management has indicated that the company will remain competitive in the category.



Personal products: Personal products grew at 12.1% YoY, lower than the previous growth momentum (14.1% YoY in Q3FY12, 17.1% YoY in Q4FY12 and 16.7% YoY in Q1FY13), impacted 220bps due to CSD issues and price hike in *Fair & Lovely* sachet after the brand was relaunched in the previous quarter. Margin declined 125bps YoY to 24.2%. Skin care growth was driven by *Ponds*, *Vaseline* and *Dove*; *Fair & Lovely* has performed well. Hair care portfolio delivered strong double digit growth. The company launched the *TRESemmé* brand in India (launched in Brazil and UK as well), a new launch in the hair care portfolio after many quarters. Management believes *TRESemmé* will add value to the overall portfolio and is not concerned with its cannibalisation effect. The company also relaunched *Clinic Plus* brand and launched a new *Hair Fall Rescue* range under *Dove*. Oral care grew in double digits YoY (largely volume led) led by robust growth in *Close Up* (relaunched last quarter) and the *Pepsodent* brand (driven by premium range). Personal product portfolio remains the company's key focus area and management expects it to be a strong revenue growth driver.



Beverages: Beverages posted 10% YoY growth with coffee posting robust growth YoY. Margin improved 91bps YoY to 14.3%. Coffee posted strong growth with both instant & roast and ground varieties doing well. The company launched a new variant of the premium coffee *Bru Exotica Guatemala*. Tea growth was led by top-end variants while growth in the mass end (faced issues in Q1FY13) was led by the re-launch of *Taaza*. Tea bags portfolio has been growing faster than the category (on low base) and the company has introduced new variants and increased the range of offerings.

Packaged foods: Packaged foods business grew 10.2% YoY. However, margin declined 471bps YoY to a mere 0.2%. *Kwality Walls* grew in double digits YoY. *Knorr soups* grew in double digits while *Kissan Ketchups* achieved double digit growth in non-CSD channels. The company is stepping up its *Knorr Soupy Noodles* portfolio.



Water business: *Pureit* posted good growth despite slowdown in consumer durables market in India. The company ventured into the premium UV segment with the launch of *Marvella UV*.

Discretionary slowdown: HUL has witnessed some slowdown in growth in certain discretionary categories within packaged food and personal product portfolio.

Other operating income: Other operating income increased 65.1% YoY. This includes some benefits from activations and promotions done in other businesses of Unilever, and the expenses are reflected in other expenditure and employee costs.

Modern trade: Growth has been robust in modern trade, which contributes 15% to revenue.

New products dazzle, focus remains on innovation: Q2FY13 has been an innovation intensive quarter with major products being launch of the *Comfort 1 Rinse* (in *Comfort* fabric conditioners), launch of *TRESemmé* brand in India, relaunch of *Clinic Plus*, launched a *Hair Fall Rescue* range under *Dove*, launched *Bru Exotica Guatemala* and relaunched *Taaza*. Some other innovations include *Surf Excel Easywash*, *Lakmé eyeconic* range, launch of *Vim Anti Germ* bar and *Pureit Marvella UV*. We believe HUL's focus on keeping the consumer enthused with new and improved offerings will keep it a step ahead of competition.

Raw material scenario: Raw material scenario has been volatile over the past quarter—forex has been volatile, PFAD is softening and crude has been largely stable.

New packaging guidelines: Most of HUL's products are now compliant with the new packaging guideline.

Tax rate: Management has guided tax rate for operations in FY13 at 24-25%; FY14 to be at 26%. However, overall tax rate will be lower as tax rate on non-operating income (property sale etc.) is lower. FY15 tax is likely inch up further to full tax rate at 30-33%.

Chart 1: Volume growth tapering

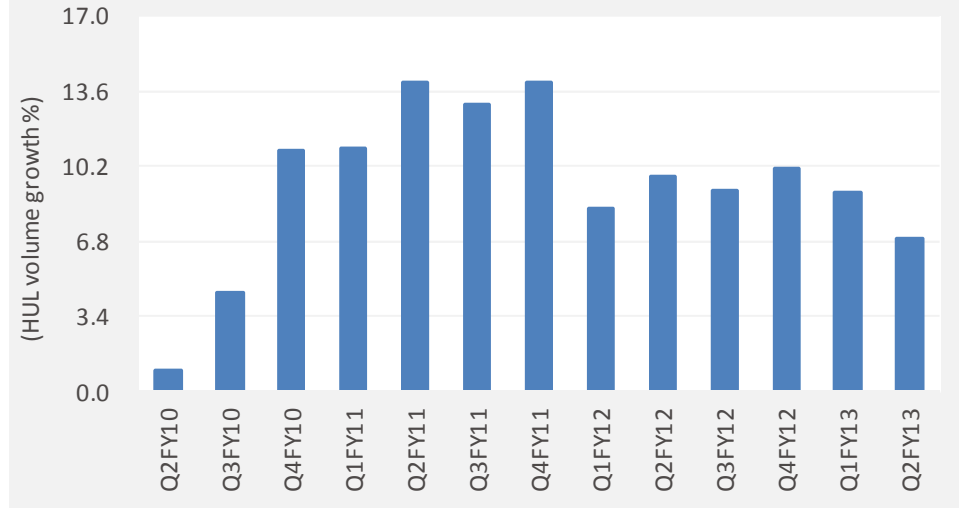


Chart 2: A&P as % of sales increased YoY

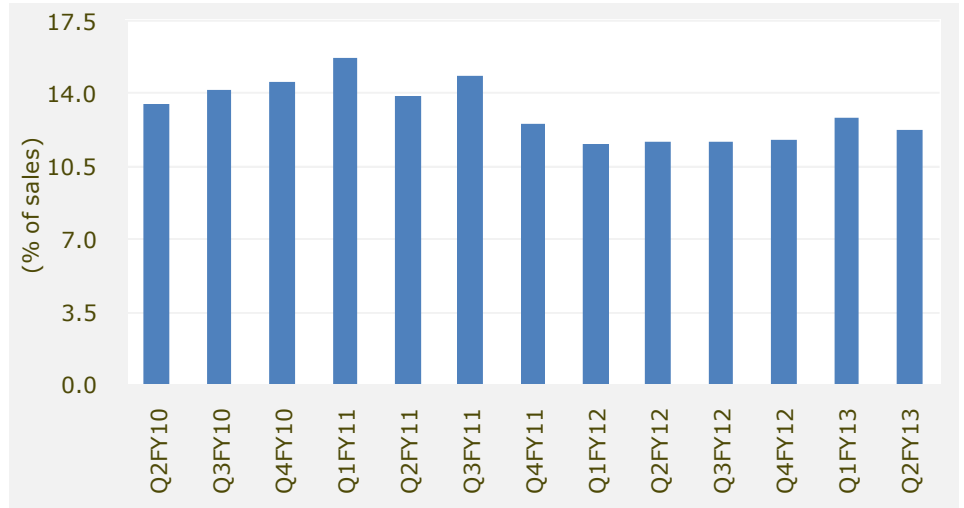
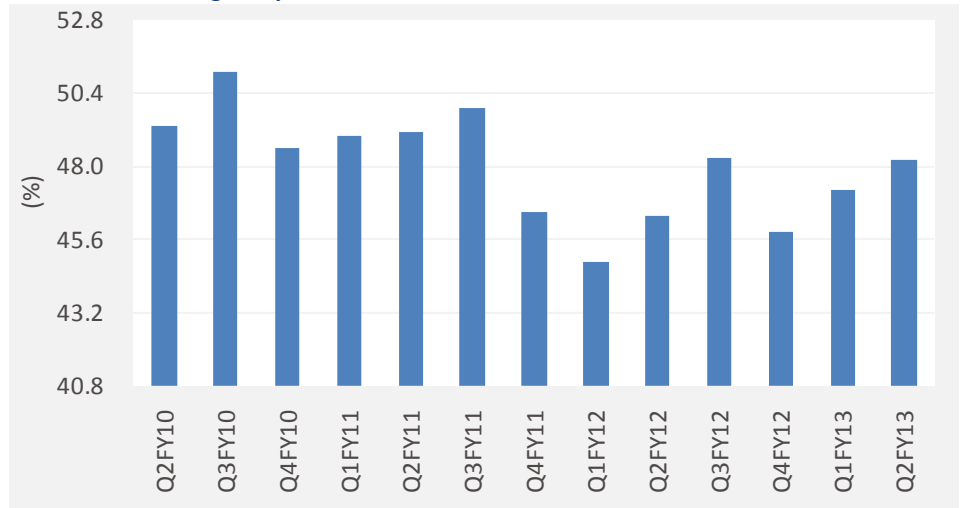


Chart 3: Gross margin expanded YoY



Source: Company, Edelweiss research

Chart 4: Category-wise contribution - Sales

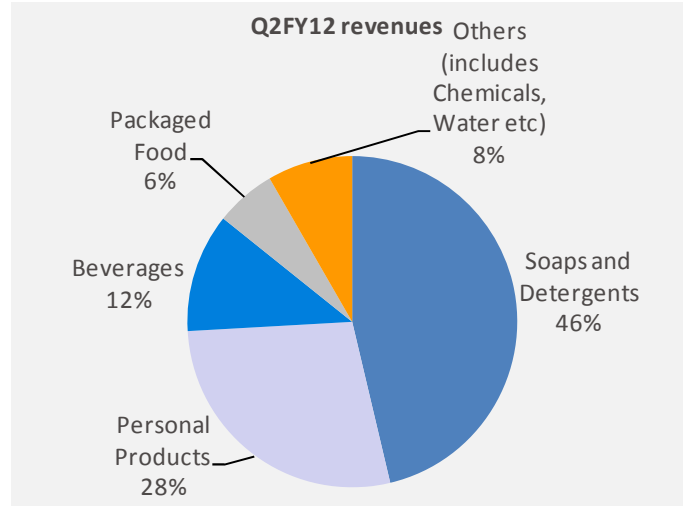
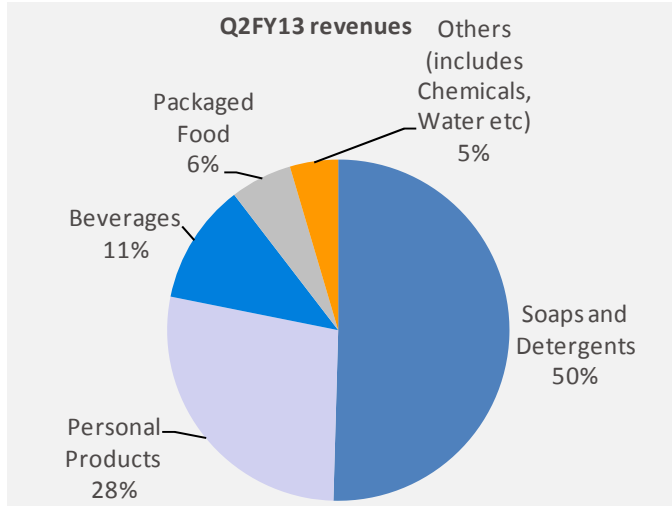


Chart 5: Category-wise contribution - EBIT

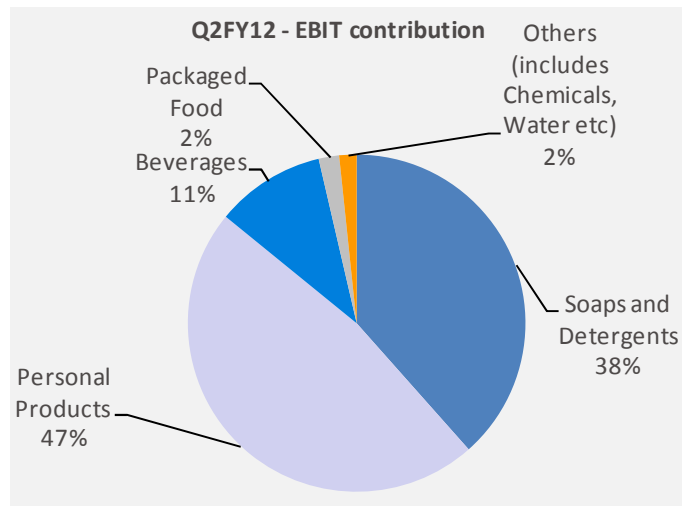
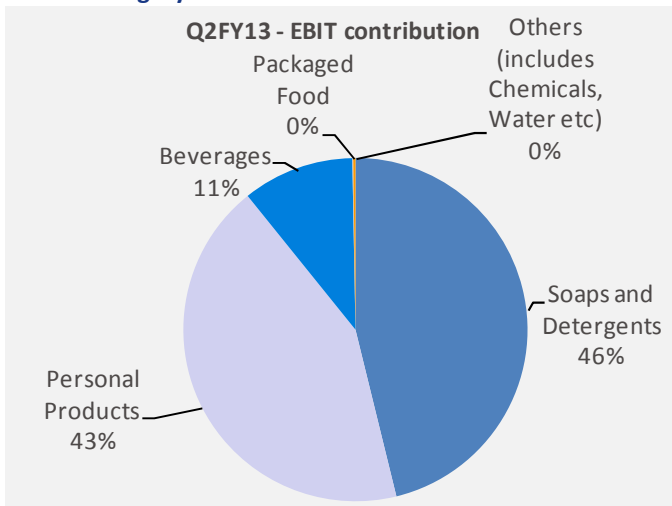


Chart 6: S&D YoY revenue growth

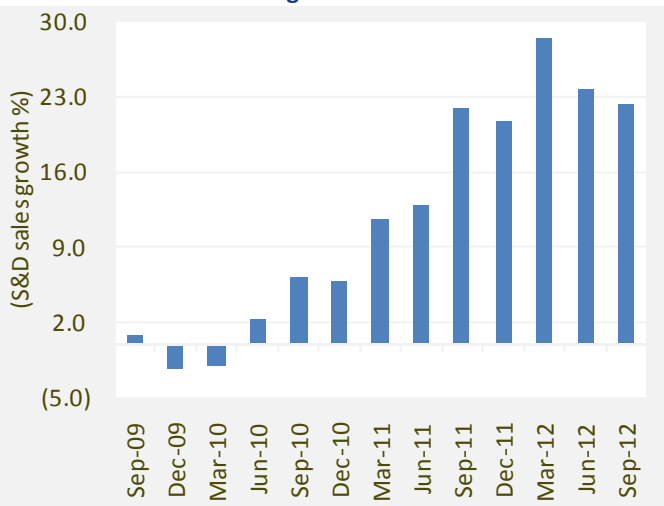
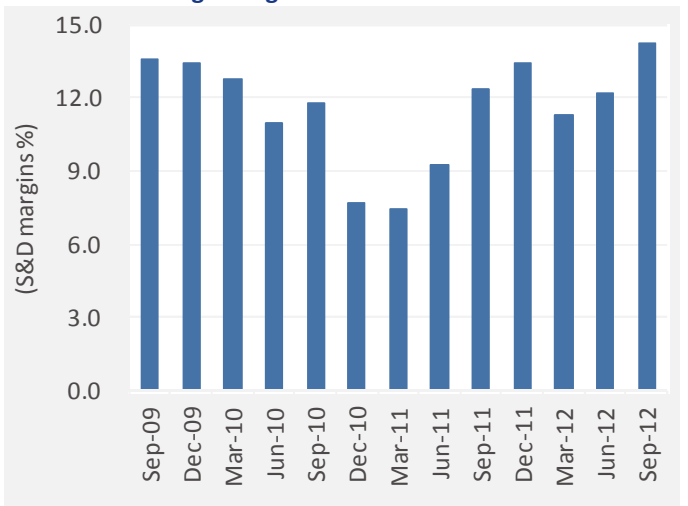


Chart 7: S&D margin surges YoY



Source: Company, Edelweiss research

Chart 8: PP revenue growth YoY

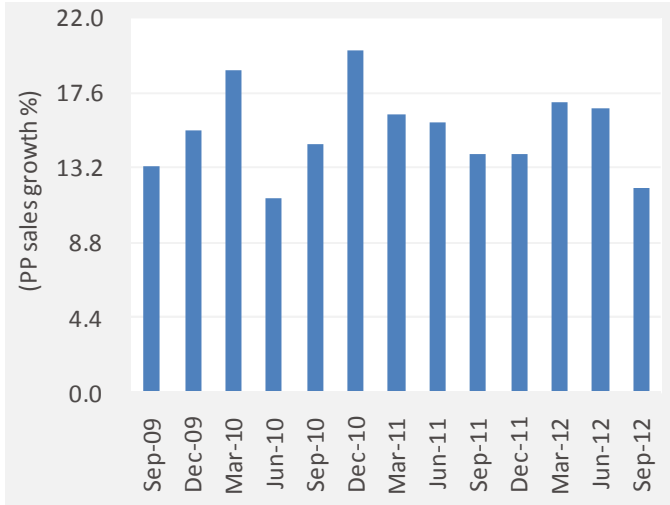


Chart 9: PP margin decline YoY

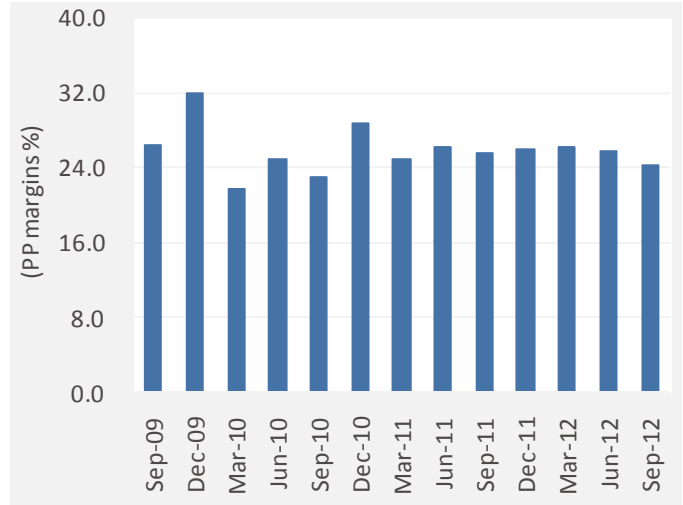


Chart 10: Beverages sales growth revives

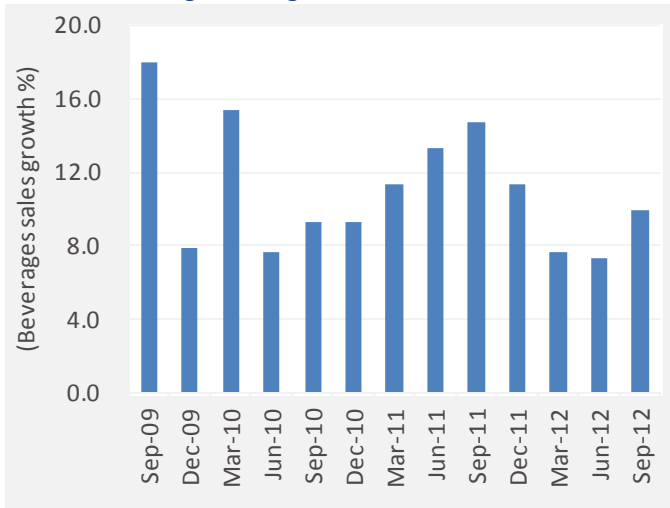


Chart 11: Beverages margin surges YoY

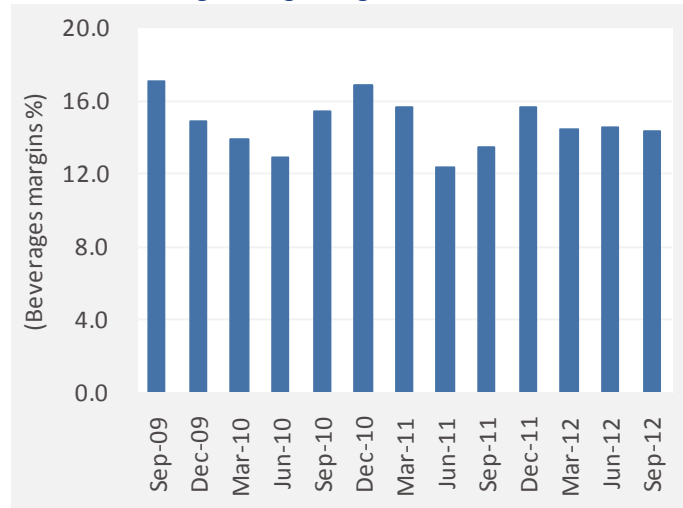


Chart 12: Packaged food sales growth

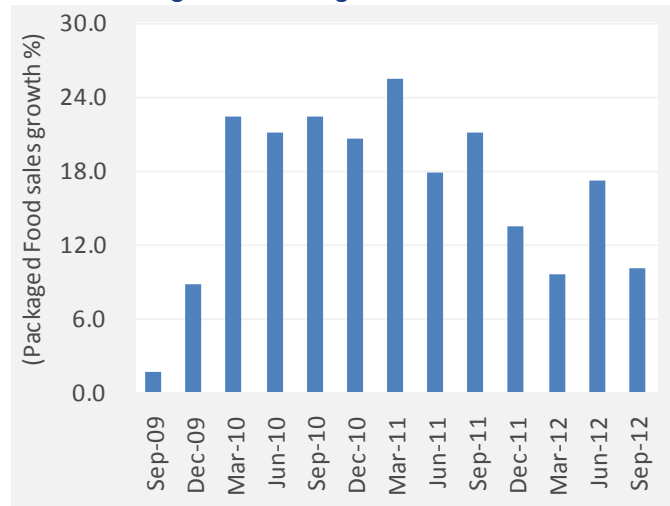
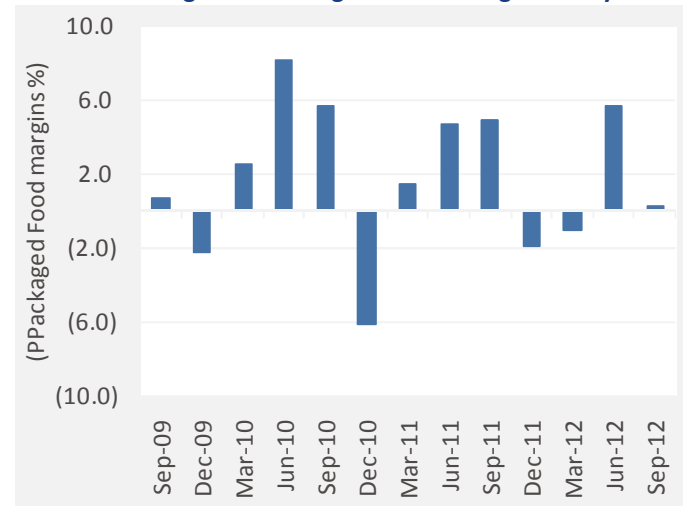


Chart 13: Packaged food margins declined significantly



Source: Company, Edelweiss research

Table 2: Segmental performance

Year to March - Revenues (INR mn)	Q2FY13	Q2FY12	YoY growth	Q1FY13	QoQ growth
Soaps and Detergents	31,762	25,961	22.3	31,631	0.4
Personal products	17,445	15,562	12.1	18,471	(5.6)
Beverages	7,196	6,542	10.0	6,541	10.0
Packaged food	3,663	3,323	10.2	4,370	(16.2)
Others (includes chemicals, water etc)*	2,884	4,662	(38.1)	2,640	9.2
Segment results (Profit/(Loss) before tax and interest)					
Soaps and Detergents	4,536	3,212	41.2	3,852	17.7
Personal products	4,226	3,965	6.6	4,757	(11.2)
Beverages	1,031	877	17.5	950	8.5
Packaged food	9	165	(94.5)	248	96.4
Others (includes chemicals, water etc)*	21	138	(85.1)	(43)	147.3
Segment margins					
Year to March - Margin (%)	Q2FY13	Q2FY12	YoY growth (bps)	Q1FY13	QoQ growth (bps)
Soaps and Detergents	14.3	12.4	191	12.2	210
Personal products	24.2	25.5	(125)	25.8	(153)
Beverages	14.3	13.4	91	14.5	(20)
Packaged food	0.2	5.0	(471)	5.7	(543)
Others (includes chemicals, water etc)*	0.7	3.0	(224)	(1.6)	235

Source: Source: Company, Edelweiss research

Chart 14: Palm oil prices seen correcting



Source: Source: Company, Edelweiss research

Table 3: P&G's growth in China has been moderate- organic sales growth (%)

Country	Q1FY13	Q4FY12
Brazil	28.0	17.0
Russia	8.0	18.0
India	25.0	21.0
China	7.0	9.0
Total developing	7.0	10.0

Source: Source: Company, Edelweiss research

Other key developments

- HUL launched Rin Perfect Shine fabric whitener priced at INR15 for 70ml pitched against Jyothy's Ujala priced at INR20 for 125ml pack.
- HUL plans to relaunch its noodle brand Knorr in a new avatar in December.
- To comply with Advertising Standards Council of India's (ASCI) order, HUL refrained from mentioning its Kwality Walls brand as 'ice cream' (made from milk fat) which is actually a frozen dessert (made from vegetable fat).
- To increase its rural presence, HUL is planning to create 50 rural-urban hubs where every village is within an hour of travel to an urban centre to link rural markets with urban areas so that the hinterland can be served in a more effective and cost efficient manner. These hubs will connect over two-thirds of the rural population to urban markets.
- The company won the prestigious Golden Peacock Occupational Health and Safety Award for 2012 in the FMCG category for its safety and health initiatives and continuous improvement on key metrics.
- HUL & Star Bazaar won the silver award at the 13th ECR Asia Pacific Conference for high degree of collaboration between retailer-supplier.
- HUL is looking to increase its partnership with Tata Teleservices to increase its rural footprint to 15 states from around seven states currently.
- The company also returned to Star Network for advertising after three months of absence.

Outlook and valuations: Expensive; downgrade to 'HOLD'

We like HUL's strategy of investing in categories that will pay rich dividends from a 3-5 year perspective and focus on new product launches and market share gains in existing categories. We assign a higher target P/E of 32.0x (29.5x earlier) and assign it a target price of INR566. We have also marginally increased our EPS for FY13 and FY14 by 2.2% & 2.4% respectively as S&D margin could expand further in the coming quarters due to lower palm oil prices, coupled with lower focus of P&G in India. However, vindicating our report, *Go Contra; turnaround signals getting louder*, dated May 26, 2010, the stock has since outperformed Nifty ~124% and is trading near its historical high P/E at 35.9x and 31.2x on FY13E and FY14E, respectively. Hence, we downgrade our recommendation to '**HOLD**' from '**BUY**' and rate the stock '**Sector Performer**' on relative return basis.

Financial snapshot
(INR mn)

Year to March	Q2FY13	Q2FY12	% Change	Q1FY13	% Change	FY12	FY13E	FY14E
Net revenues	63,108	56,101	12.5	63,788	(1.1)	234,363	269,759	307,826
Cost of goods sold	32,695	30,088	8.7	33,677	(2.9)	125,017	141,759	160,249
Gross profit	30,414	26,014	16.9	30,110	1.0	109,347	127,999	147,576
Staff costs	3,305	2,873	15.0	3,329	(0.7)	12,009	13,973	16,038
Advt. sales & promotions	7,690	6,514	18.1	8,196	(6.2)	26,970	32,371	37,247
Other expenses	9,652	8,360	15.4	8,921	8.2	35,532	40,194	46,174
Total expenditure	20,646	17,747	16.3	20,446	1.0	74,511	86,539	99,458
EBITDA	9,767	8,267	18.2	9,665	1.1	34,836	41,461	48,118
Depreciation & amortization	577	571	1.0	576	0.1	2,335	2,615	2,889
EBIT	9,191	7,696	19.4	9,088	1.1	32,500	38,846	45,229
Interest	(63)	(5)	NA	(1,115)	NA	2,580	4,962	6,511
Profit before tax	10,615	8,501	24.9	10,160	4.5	35,080	43,809	51,739
Provision for taxes	2,561	2,057	24.5	2,408	6.4	8,215	10,514	13,452
Core profit	8,053	6,445	25.0	7,751	3.9	26,865	33,295	38,287
Exceptional	16	444	(96.4)	5,561	(99.7)	1,137	-	-
Net profit	8,069	6,889	17.1	13,312	(39.4)	27,907	33,295	38,287
Adj. EPS (INR)	3.7	3.0		3.6		12.4	15.4	17.7
As % of net revenues								
COGS	51.8	53.6		52.8		53.3	52.6	52.1
Employee cost	5.2	5.1		5.2		5.1	5.2	5.2
Adv. & sales promotions	12.2	11.6		12.8		11.5	12.0	12.1
Other expenditure	15.3	14.9		14.0		15.2	14.9	15.0
EBITDA	15.5	14.7		15.2		14.9	15.4	15.6
EBIT	14.6	13.7		14.2		13.9	14.4	14.7
PBT	16.8	15.2		15.9		15.0	16.2	16.8
Reported net profit	12.8	11.5		12.2		11.5	12.3	12.4
Tax rate	24.1	24.2		23.7		23.4	24.0	26.0

* Quarterly nos. standalone; annual nos. consolidated

Company Description

HUL, the largest FMCG Company in India, was formed by merging three subsidiaries of Unilever in 1956. At present, Unilever Plc holds a 52.5% stake in the company. HUL's portfolio of products covers a wide spectrum including soaps, detergents, skin creams, shampoos, toothpastes, tea, coffee, packaged foods and branded atta.

Powerful brands and an enviable distribution network are HUL's primary strengths. The company operates through segments—soaps & detergents, personal products, beverages, foods,—exports, and other operations.

Investment Theme

HUL is a play on consumption growth in India. The company has displayed its ability to effect price hikes and avoid impact of inflation in vegetable oils, which, combined with improved outlook for fabric wash and strong growth in processed foods and beverages, boosts our positive outlook on the stock. The recent moves by the company to dispose of its non core assets including few properties give it a near term upside. We believe the price war in shampoos with rival P&G has weakened (just like in S&D) and this is likely to add to the profitability from the segment going forward.

Key Risks

Deficit rainfall remains key concern as it may shrink rural consumption, thereby hurting revenues.

A rise in crude oil prices can result in biodiesel demand resurfacing, which in turn could lead to increase in vegetable oil price inflation; in turn deteriorating the company's operating margins.

The price war in HUL's popular segments with new entrants entering the fray could hit the company hard.

Further risks arise from down trading by consumers in response to recent price hikes, which could hurt the company's top line.

Financial Statements

Key Assumptions

Year to March		FY10	FY11	FY12	FY13E	FY14E
Macro -	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)	5.0	6.8	8.5	7.5	6.8
	USD/INR (Avg)	47.4	45.6	47.9	53.5	52.0
Company -	Volume growth	(16.5)	11.5	9.0	8.1	7.0
	Pricing change	3.1	(0.9)	3.2	7.3	7.4
	COGS as % of sales	50.7	50.9	53.3	52.6	52.1
	A&P as % of sales	13.6	14.0	11.5	12.0	12.1

Income statement

(InR mn)

Year to March	FY10	FY11	FY12	FY13E	FY14E
Net revenue	177,643	200,226	234,363	269,759	307,826
Materials costs	90,115	101,820	125,017	141,759	160,249
Employee costs	9,709	10,149	12,009	13,973	16,038
Other expenses	27,829	33,174	35,532	40,194	46,174
Advertisement & sales costs	24,230	27,971	26,970	32,371	37,247
EBITDA	25,759	27,112	34,836	41,461	48,118
Depreciation & Amortization	1,919	2,293	2,335	2,615	2,889
EBIT	23,840	24,819	32,500	38,846	45,229
Other income	3,440	2,552	2,596	4,966	6,516
Interest expenses	75	10	17	4	5
Profit before tax	27,205	27,361	35,080	43,809	51,739
Provision for tax	6,153	6,503	8,215	10,514	13,452
Net profit	21,052	20,858	26,865	33,295	38,287
Prior period adjustments (net)	594	2,208	1,137	-	-
Minority interest	(80)	(106)	(95)	-	-
Profit after minority interest	21,566	22,961	27,907	33,295	38,287
Diluted EPS (INR)	9.7	9.6	12.4	15.4	17.7
Dividend per share (INR)	6.5	6.5	7.5	8.9	10.3
Dividend payout (%)	65.7	61.4	58.1	58.1	58.1

Common size metrics - as % of net revenues

Year to March	FY10	FY11	FY12	FY13E	FY14E
Materials costs	50.7	50.9	53.3	52.6	52.1
Employee expenses	5.5	5.1	5.1	5.2	5.2
Advertising & sales costs	13.6	14.0	11.5	12.0	12.1
EBITDA margins	14.5	13.5	14.9	15.4	15.6
Net profit margins	11.9	10.4	11.5	12.3	12.4

Growth ratios (%)

Year to March	FY10	FY11	FY12	FY13E	FY14E
Rev. growth (%)	48.0	12.7	17.0	15.1	14.1
EBITDA	41.4	5.3	28.5	19.0	16.1
Net profit	40.8	(0.9)	28.8	23.9	15.0
EPS growth (%)	40.7	(1.1)	30.1	23.9	15.0

Balance sheet					(INR mn)
As on 31st March	FY10	FY11	FY12	FY13E	FY14E
Equity capital	2,182	2,160	2,162	2,162	2,162
Reserves & surplus	24,508	24,934	34,649	45,468	57,908
Shareholders funds	26,794	27,239	36,994	47,812	60,253
Minority interest (BS)	105	146	183	183	183
Secured loans	105	-	-	-	-
Unsecured loans	4	27	-	-	-
Borrowings	108	27	-	-	-
Sources of funds	26,902	27,266	36,994	47,812	60,253
Gross block	36,672	38,541	40,612	45,112	49,612
Depreciation	14,529	16,307	17,983	20,598	23,487
Net block	22,144	22,235	22,629	24,514	26,125
Capital work in progress	2,800	2,997	2,276	3,300	3,500
Investments	12,244	11,885	23,222	23,222	23,222
Inventories	22,264	28,738	26,674	31,816	36,222
Sundry debtors	6,917	9,549	8,567	10,352	11,729
Cash and equivalents	20,124	17,873	19,964	31,763	46,067
Loans and advances	5,895	6,632	8,269	8,269	8,269
Total current assets	55,393	63,169	63,847	82,573	102,659
Sundry creditors and others	53,522	61,730	57,399	68,216	77,672
Provisions	14,638	13,359	19,680	19,680	19,680
Total current liabilities & provisions	68,160	75,089	77,079	87,895	97,352
Net current assets	(12,767)	(11,920)	(13,232)	(5,323)	5,307
Uses of funds	26,902	27,266	36,994	47,812	60,253
Book value per share (INR)	12.3	12.5	17.1	22.1	27.9

Free cash flow					(INR mn)
Year to March	FY10	FY11	FY12	FY13E	FY14E
Net profit	21,566	22,961	27,907	33,295	38,287
Add : Non cash charge	1,480	201	1,310	2,619	2,894
Depreciation	1,919	2,293	2,335	2,615	2,889
Others	(440)	(2,092)	(1,026)	4	5
Gross cash flow	23,046	23,161	29,216	35,913	41,181
Less: Changes in WC	(12,428)	898	1,286	(2,866)	(3,475)
Operating cash flow	35,474	22,264	27,931	38,779	44,656
Less: Capex	7,081	1,869	2,070	4,500	4,500
Free cash flow	28,393	20,395	25,861	34,279	40,156

Cash flow metrics					
Year to March	FY10	FY11	FY12	FY13E	FY14E
Operating cash flow	35,474	22,264	27,931	38,779	44,656
Investing cash flow	(16,449)	(1,509)	(13,407)	(4,500)	(4,500)
Financing cash flow	(20,872)	(16,512)	(18,882)	(22,480)	(25,852)
Net cash flow	(1,847)	4,243	(4,358)	11,799	14,304
Capex	(7,081)	(1,869)	(2,070)	(4,500)	(4,500)
Dividends paid	(16,564)	(16,420)	(18,839)	(22,476)	(25,847)
Share issuance/(buyback)	2	(22)	2	-	-

Profitability & efficiency ratios

Year to March	FY10	FY11	FY12	FY13E	FY14E
ROAE (%)	140.1	77.6	83.9	78.5	70.9
ROACE (%)	219.9	165.2	223.0	202.5	146.8
Inventory day	49	46	43	43	43
Debtors days	13	15	14	14	14
Payable days	116	122	109	109	109
Cash conversion cycle (days)	(54)	(60)	(52)	(52)	(52)

Operating ratios

Year to March	FY10	FY11	FY12	FY13E	FY14E
Total asset turnover	10.1	7.4	7.3	6.4	5.7
Fixed asset turnover	12.9	9.0	10.4	11.4	12.2
Equity turnover	11.6	7.4	7.3	6.4	5.7

Valuation parameters

Year to March	FY10	FY11	FY12	FY13E	FY14E
Diluted EPS (INR)	9.7	9.6	12.4	15.4	17.7
Y-o-Y growth (%)	40.0	(1.1)	30.1	23.9	15.0
CEPS (INR)	10.5	10.6	13.5	16.6	19.0
Diluted PE (x)	57.2	57.8	44.4	35.9	31.2
Price/BV (x)	44.9	44.2	32.3	25.0	19.8
EV/Sales (x)	6.6	5.9	4.9	4.2	3.7
EV/EBITDA (x)	45.5	43.3	33.0	27.5	23.4
Dividend yield (%)	1.2	1.2	1.4	1.6	1.9

Peer comparison valuation

Company	Market Price (INR)	Mcap (INR bn)	P/E (x)		EV/EBITDA(x)		ROE (%)	
			FY13E	FY14E	FY13E	FY14E	FY13E	FY14E
Consumer Goods								
Asian Paints	3,923	376	32.7	27.0	20.8	17.2	38.2	38.9
Colgate	1,231	167	31.9	27.6	23.5	19.7	112.0	112.9
Dabur	130	226	30.5	25.1	21.1	17.7	40.7	38.4
Emami	596	90	30.0	24.4	24.9	20.5	40.3	43.7
GSK Consumer*	3,094	130	31.6	27.2	20.5	17.4	40.7	38.4
Godrej Consumer	706	240	31.4	26.1	22.8	18.8	22.9	23.6
Hindustan Unilever	552	1194	35.9	31.2	27.5	23.4	78.5	70.9
ITC	286	2246	29.6	25.2	19.1	16.1	37.5	39.6
Marico	206	133	32.1	26.7	21.3	17.5	30.3	28.5
Nestle*	4,652	449	39.8	32.8	25.3	20.5	74.7	67.4
United Spirits	1,203	157	48.0	34.6	18.1	15.7	6.6	8.6
Consumer Goods - Mean			34.0	28.0	22.3	18.6	47.5	46.4
Consumer Goods - Mean (market cap wtd average)			32.9	27.7	22.1	18.6	50.5	49.1
Consumer Goods - Mean (ex-Nestle)			33.4x	27.5x	21.9x	18.4x	44.8	44.3

* 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
26-Oct-12	Dabur	Healthy and Juicy; <i>Result Update</i>	130	Buy
26-Oct-12	Procter & Gamble	China disappoints, India robust; <i>Global Pulse</i>		
19-Oct-12	ITC	Sweet delight: Cigarette, FMCG whip up a surprise; <i>Result Update</i>	298	Buy

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
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

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