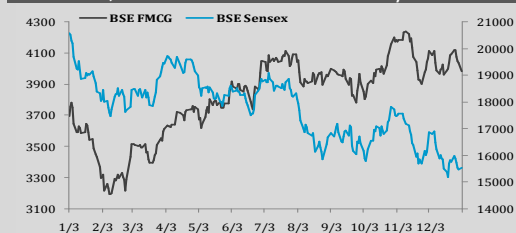
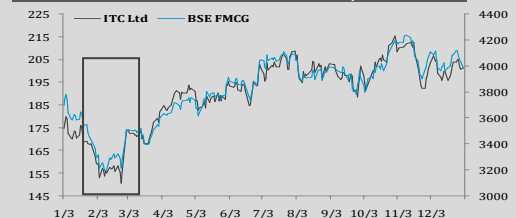


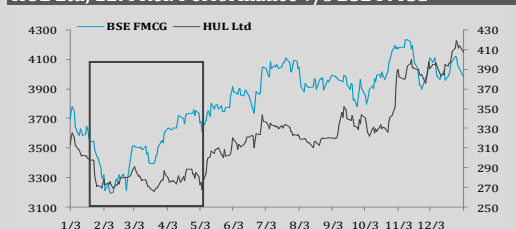
**BSE FMCG, 12M Relative Performance v/s Sensex**



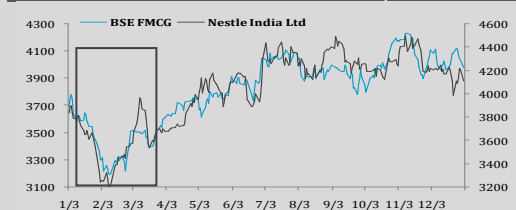
**ITC Ltd, 12M Relative Performance v/s BSE FMCG**



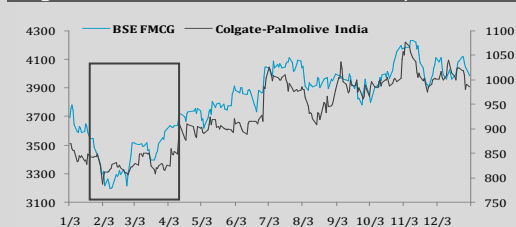
**HUL Ltd, 12M Rel. Performance v/s BSE FMCG**



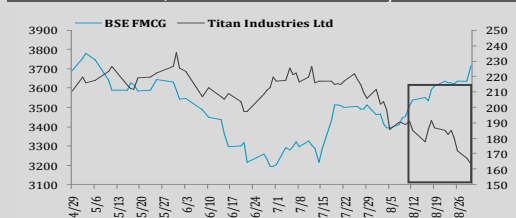
**Nestle India Ltd, 12M Rel. Performance v/s BSE FMCG**



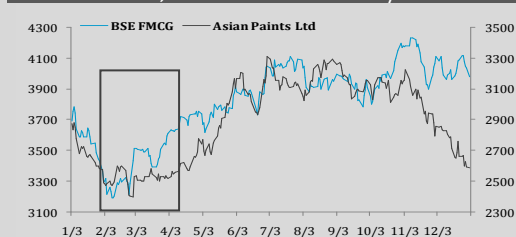
**Colgate Palmolive, 12M Rel. Performance v/s BSE FMCG**



**Titan Industries, 12M Rel. Performance v/s BSE FMCG**



**Asian Paints Ltd, 12M Rel. Performance v/s BSE FMCG**



**The rapid changes in the rural India have improved the ways of generating income. With a huge population base the improvement in the rural income has opened several gates for the FMCG companies**

In the last five years, rural India has outperformed the overall FMCG growth and providing significant volume growth to the FMCG companies. During the same period, rural market displayed ~16% growth compared to ~12% growth in the urban market. We observed a sharp change in the rural income mix in the past 15 years. Lower class had >50% share of the rural India in FY'97 which has lowered down to ~21% in FY'11. High income growth has shifted lower class people into lower middle class and middle class. This resulted into ~15% and ~13% expansion in lower middle class and middle class mix in the past 15 years, which quantifies a minimum of ~5% volume growth/Yr, that started from FY'11. The dynamics for rural India has changed favorably for FMCG companies and will benefit for long period. As per the 'CII and Euro-Monitor', ~50%+ of the rural population will come under ₹95,000-2,05,000 PA income range by FY'15 which was at ~35% in FY'06. This rise in annual income will favorably improve the lower middle class and middle class mix going forward. The change in the rural income mix will help FMCG companies in maintaining the volume growth for long period.

**Margins & volume remain pressurized in the near-term & will ease on further on inflation accruals & policies from Govt**

Well, given the fact that the input cost rose by ~20% in the H2FY'12, however, we expect the companies' margins to be protective as this is a short-term impact and will tend to go on till inflation remains above the comfort level. But, as we see that inflation moderating, the impact of raw materials cost will not be seen in this Q but is expected to subside by the end of Q4FY'12. Therefore, margin pressure will come down and believing the fact the hiked prices on products remaining, we expect this to add value to the company's top-line and bottom-line. Given the margin pressure and just now price hikes, we expect numbers Q4FY'12 to show some pressure on margins but certainly not in volume. The margins are expected to moderate because few raw materials' prices, like, LLP (light liquid paraffin), LAB (linear alkyl benzene), PFAD (palm fatty acid distillate) and Copra have seen prices increase sharply, may prompt the detergent making companies to compromise on margins. Raw materials (mentioned above) prices have started rising from Q2-Q3FY'12 period and is not cooling since then, so we expect the companies to adopt different price points to protect their margins & volumes. Despite the price hikes, this sector would be able to sustain a volume growth of ~10-13%, and they will be expected to focus on affordable and small pack sizes.

**Factors to impact the movement of stocks in the near-term**

Well, on the investment point-of-view, we feel, the investment horizon (period) plays a vital role. If investors are willing to invest for a quarter or so, we would suggest them to hold as because stocks' upside will be limited as two factors will be impacting the stocks' movement. 1) Inflation 2) moderating economic growth, but that wouldn't bring so much a fall. But if the investment horizon is more than 6 months, we would suggest go for it as FMCG is the only sector (interest defensive) that gave a positive return (~10.8%) in the entire one year period of CY'11 and we believe that it will continue to do directly co-relating India's growth story, however, if we see some moderation.

Source: Company & R K Global Research

Charts: NSE, Ace Equity & R K Global Research, as on 03rd January'12

Boxed Phases (LHS) on charts: Reflects BUY phases

Coverage: ITC, HUL, Nestle (RU) & Colgate Palmolive, Asian Paints, Titan (Initiative Coverage)

CMP- ₹207

**ITC Ltd**  
"Re-iterate HOLD"

Re-iterate Target Price- ₹226

### Market Data

Bloomberg Code	ITC IN
Reuters Code	ITC.BO
SENSEX	16154
NIFTY	4866
Dividend Yield (%)	1.9
52 Week High/ Low(₹)	216/149
Equity Capital(₹ mn)	3762
Face Value (₹)	1
Market Cap (₹ mn)	1620430
Avg. 10 day Vol. NSE	7659686
Time Period (Months)	12

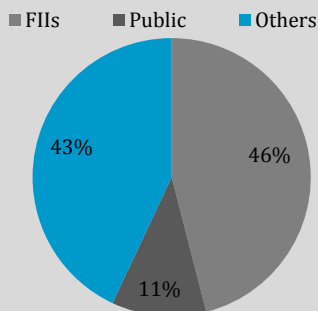
Source: Company, R K Global Research, as on 13<sup>th</sup>Jan'12

### Key Market Ratios

TTM EPS (₹)	7.6
TTM Book Value (₹)	21
TTM PE (x)	28.1
TTM P/BV (x)	9
TTM EV/EBIDTA (x)	19
EV/TTM Sales (x)	7.1
Mcap/TTM Sales (x)	6.5

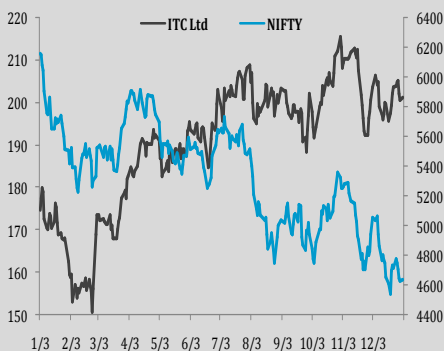
Source: Company, R K Global Research, as on 30<sup>th</sup>Sep'11

### Share-Holding Pattern (%)



Source: Company, R K Global Research, as on 30<sup>th</sup>Sep'11

### Price v/s NIFTY



Source: Company, R K Global Research, as on 03<sup>rd</sup>Jan'11

### Research Analyst:

Sourav Ghosh  
Sourav.ghosh@rkglobal.in

**ITC's FMCG-Cigarette, which contributes around ~55%, continues to be cash cow segment for the company. It also endeavor to make a mark in the Indian FMCG market and with successful brands such as Bingo, Sunfeast and Ashirwaad, ITC is already respected the best in the industry. Moreover, price hikes (we expect) will auger very well for the company as raw materials cost induces pressure**

Historically, ITC enjoys tremendous pricing power in tobacco segment (price leader) as its products are of high value for its brand loyal customers; we may take in case, the tobacco business of ITC. If we look its historical price hikes, we will find ITC usually hikes cigarette price twice/year by ~12.5% on select brands, like, *Classic, Classic Milds, Classic Menthol, Wills Navy Cut & Gold Flake Regular/Kings*. Moreover, cigarette volumes are falling along with rising consciousness of anti-smoking & pressure of Govt. duties, so, we expect the company to hike cigarette prices once more this quarter to keep alive its margins and revenue. Among brands, *Sunfeast, Ashirwaad, Vivel & Fiama Di Wills* are the furthest in reach and Mshare, so we do not rule out any possibilities of a price hike in this Q. Our Q3FY'12E total revenue stands at ₹63,762 mn, up by ~24% YoY & ~7% QoQ.

### Valuation & Outlook: Value remains intact, cushioning necessary

ITC's other businesses, such as hotel, agri, FMCG-Others business and paper, paperboard and packaging, are showing a strong up-move and will provide a cushion to the overall profit in Q3FY'12 & beyond. At CMP of ₹201, the stock is presently trading at a P/E & P/BVPS of ~23.5x and ~7.4x of FY'13E EPS & BVPS. We re-iterate a **HOLD**, maintaining our earlier TP of ₹226 (potential upside of ~8.4% from current levels), factored over the P/E\*\* & P/BVPS\*\* of ~25.7x and ~8.1x respectively, using FY'13E EPS & BVPS of ₹8.8 and ₹27.7 respectively.

Desc. (₹ mn)	Q3FY'12E	Q3FY'11A	YoY (%)	Q2FY'12A	QoQ (%)
<b>Revenue</b>	<b>63,762</b>	<b>51,580</b>	<b>24</b>	<b>59,730</b>	<b>7</b>
Expenditure	41,658	34,844	20	39,355	6
<b>EBIDTA</b>	<b>22,104</b>	<b>16,736</b>	<b>32</b>	<b>20,375</b>	<b>8</b>
Other Income	1,863	1,930	(3)	1,868	Nil
PBIDTA	23,967	18,666	28	22,243	8
Depreciation	1,719	1,500	15	1,719	Nil
Interests	23	25	(10)	23	Nil
Tax	7,573	5,656	34	7,169	6
<b>Profit After Tax</b>	<b>14,653</b>	<b>11,484</b>	<b>28</b>	<b>13,333</b>	<b>10</b>
Basic EPS (₹)	1.9	1.5	28	1.7	10
Diluted EPS (₹)	1.9	1.5	28	1.7	10

Desc. (₹ mn)	Q2FY'12A	Q3FY'12E	Q4FY'12E	QoQ (%)	FY'12E
FMCG-Cigarettes	29,680	33,328	35,251	12	1,26,989
FMCG-Others	13,400	14,016	14,666	5	54,052
Hospitality	2,110	2,422	2,821	15	9,653
Agri-Business	14,340	14,047	13,439	(2)	58,897
Paperboards	10,050	10,648	11,206	6	41,493
Less: Intra-Segment	9,850	10,699	11,023	9	43,582
<b>Total</b>	<b>59,730</b>	<b>63,762</b>	<b>66,360</b>	<b>7</b>	<b>2,47,502</b>

Source: Company, R K Global Research Estimates

\*\*P/E & \*\*\*P/BVPS computed on CMP of ₹207, as on 13<sup>th</sup> Jan'2012

CMP- ₹391

Hindustan Unilever Ltd (HUL)  
"Re-iterate HOLD"

Re-iterate Target Price- ₹417

### Market Data

Bloomberg Code	HUVR IN
Reuters Code	HLL.BO
SENSEX	16154
NIFTY	4866
Dividend Yield (%)	4
52 Week High/ Low(₹)	420/264
Equity Capital(₹ mn)	2206
Face Value (₹)	1
Market Cap (₹ mn)	833860
Avg. 10 day Vol. NSE	2414816
Time Period (Months)	12

Source: Company, R K Global Research, as on 13<sup>th</sup>Jan'12

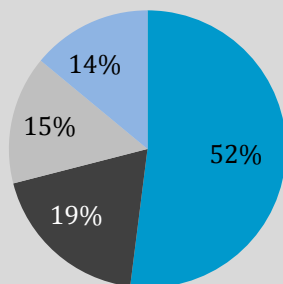
### Key Market Ratios

TTM EPS (₹)	11
TTM Book Value (₹)	12
TTM PE (x)	28
TTM P/BV (x)	23
TTM EV/EBIDTA (x)	20
EV/TTM Sales (x)	3.1
Mcap/TTM Sales (x)	3.0

Source: Company, R K Global Research, as on 30<sup>th</sup>Sep'11

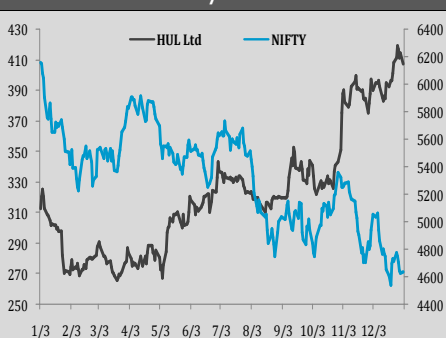
### Share-Holding Pattern (%)

■ Promoters ■ FII's ■ Public ■ Others



Source: Company, R K Global Research, as on 30<sup>th</sup>Sep'11

### Price v/s NIFTY



Source: Company, R K Global Research, as on 03<sup>rd</sup>Jan'11

### Research Analyst:

Sourav Ghosh  
Sourav.ghosh@rkglobal.in

*Our Q3FY'12E expected margins, OP & PAT sounds alarm, impacted by increasing raw materials price and moderating consumer demand for the period. However, having said so, the company has increased product prices due to sharp increases in key ingredients such as palm oil and crude oil has hit personal care segment of HUL in recent months. However, we expect the hiked prices and its stability on the buying sentiment is expected to mix & auger for a better performance in the Q4FY'12E*

Our Q3FY'12E revenue sees a YoY growth of ~9% only, and unexpectedly falls by a meager ~1% QoQ to ₹55,798 mn. We expect numbers Q3FY'12E to show some pressure on margins but certainly not in volume. The margins are expected to moderate because few raw materials' prices, like, LLP (light liquid paraffin), LAB (linear alkyl benzene), PFAD (palm fatty acid distillate) and Copra have seen prices increase sharply, may prompt the detergent making companies to compromise on margins. Raw materials (mentioned above) prices have started rising from Q2-Q3FY'12 period and is not cooling since then, so we expect the companies to adopt different price points to protect their margins & volumes. Despite the price hikes, this sector would be able to sustain a volume growth of ~10-13%, and they will be expected to focus on affordable and small pack sizes.

### Our Q3 forecast sees margins falls considerably, so as the PAT

Well, given the fact that the input cost rose by ~20% in the H2 & Q3FY'12, however, we expect the HUL's margins to contract. Our EBIDTA sees a valiant fall by ~23% YoY at ₹11,254 mn, while its margin falls by ~8.5%. The company's PAT sees a fall by ~25% (₹9,862 mn in Q3FY'12E) YoY and PATM see a ~8% contraction YoY.

### Valuation & Outlook: Limited upside, see contraction in near-term

Moderating inflation (presently) will be subsided till the end of Q4FY'12E. Therefore, margin pressure will come down. The stock is trading at a P/E & P/BVPS of ~28x and ~12.2x of FY'13E EPS & BVPS. We re-iterate a **HOLD**, maintaining our earlier TP of ₹417 (potential upside of ~6.3% from current levels), factored over the P/E\*\* & P/BVPS\*\* of ~30x and ~13x respectively, using FY'13E EPS & BVPS of ₹14 and ₹32 respectively.

Desc. (₹ mn)	Q3FY'12E	Q3FY'11A	YoY (%)	Q2FY'12A	QoQ (%)
<b>Revenue</b>	<b>55,798</b>	<b>51,272</b>	<b>9</b>	<b>56,104</b>	<b>(1)</b>
Total Expenditure	44,544	36,595	22	47,838	(7)
<b>EBIDTA</b>	<b>11,254</b>	<b>14,678</b>	<b>(23)</b>	<b>8,266</b>	<b>27</b>
Other Income	582	775	(25)	777	(34)
PBIDTA	11,836	15,453	(23)	9,043	24
Depreciation	608	552	10	700	(15)
Interests	Nil	1	NA	Nil	NA
PBT	11,228	14,900	(25)	8,343	26
Tax	1,366	1,724	(21)	2,022	(48)
<b>Profit After Tax</b>	<b>9,862</b>	<b>13,176</b>	<b>(25)</b>	<b>6,321</b>	<b>36</b>
Basic EPS (₹)	5	6	(25)	3	36
Diluted EPS (₹)	5	6	(25)	3	36

Source: Company, R K Global Research Estimates

\*\*P/E & \*\*\*P/BVPS computed on CMP of ₹391, as on 13<sup>th</sup> Jan'2012

CMP- ₹3943

Nestle India Ltd  
"Re-iterate HOLD"

Re-iterate Target Price- ₹4607

### Market Data

Bloomberg Code	NEST IN
Reuters Code	NEST.BO
SENSEX	16154
NIFTY	4866
Dividend Yield (%)	1.17
52 Week High/ Low(₹)	4224/2295
Equity Capital(₹ mn)	964
Face Value (₹)	10
Market Cap (₹ mn)	385950
Avg. 10 day Vol. NSE	21042
Time Period (Months)	12

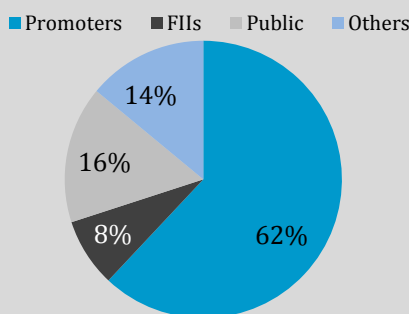
Source: Company, R K Global Research, as on 13<sup>th</sup>Jan'12

### Key Market Ratios

TTM EPS (₹)	85
TTM Book Value (₹)	88
TTM PE (x)	44.7
TTM P/BV (x)	42.7
TTM EV/EBIDTA (x)	28.5
EV/TTM Sales (x)	5.8
Mcap/TTM Sales (x)	5.9

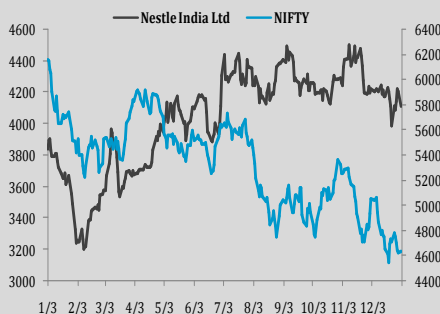
Source: Company, R K Global Research, as on 30<sup>th</sup>Sep'11

### Share-Holding Pattern (%)



Source: Company, R K Global Research, as on 30<sup>th</sup>Sep'11

### Price v/s NIFTY



Source: Company, R K Global Research, as on 03<sup>rd</sup>Jan'11

### Research Analyst:

Sourav Ghosh  
Sourav.ghosh@rkglobal.in

*The rising competitive scenario in most of the Nestlé's categories along with high capex for capacity addition would help the company to maintain its volume market share. Therefore, we expect pressure on pricing power of key brand in this Q. Moreover, increased competition is expected in the noodles segment. However, end FY price hike could be expected. Nestle trades at a ~33% premium to the FMCG sector and we expect that this premium would narrow on pressure due to rising raw materials prices and margin pressure*

Strong position in a high growth market to aid healthy volume growth of ~12% over Q4CY11E (ahead of HUL & Dabur), driving robust earnings of ~26% over this period. Further, aggressive expansion plans will augment additional growth opportunities and could lend possible upgrade catalysts to our volume growth assumptions. Although Nestle's milk product division generates the majority of its revenues, chocolates generate nearly ~15% revenue, the weight of Nestle's Kit-Kat, Milkybar and Munch chocolate bars has been reduced by around ~5-7%, which implies a price hike of around ~7% for the chocolate segment. It gives further vibrancy to margins. Moreover, the gained Mshare in noodles segment (~27.1%) is also expected to auger good for the company. Taking these into consideration, we expect a revenue of ₹21,054 mn, a growth YoY of ~26% and a QoQ growth of ~7%.

### Margins strain to continue, but expected to remain under stability

As we discussed earlier, the company has taken several steps to remove pressures from its margins through grammage and thereby through price hike. Our forecast gives a handsome EBIDTA of ₹4,380 mn, up by ~24% YoY. While our margins shows a stable ~21% EBIDTAM YoY (not expanding but trustworthy). Our PAT comes impressively at ₹2,952 mn, up by ~21%. Margins remain healthy at ~14% from YoY ~15% & QoQ ~13%.

### Valuation & Outlook: Stable yet slow, upsides limited in short-term

Nestle is expanding capacities which would force the company to maintain volume Mshare. We expect pressure on pricing power of key brands. At CMP, the stock trades at a P/E & P/BVPS of ~32.3x and ~15x respectively. We re-iterate BUY re-affirming on our TP of ₹4,605, with a potential upside of ~14% from current levels, factored over a P/E\*\* & P/BVPS\*\*\* of ~37.7x and ~18.3x using CY'12E EPS of ₹122 and BVPS of ₹251.

Desc. (₹ mn)	Q4CY'11E	Q4CY'10A	YoY (%)	Q3CY'11A	QoQ (%)
<b>Revenues</b>	<b>21,054</b>	<b>16,710</b>	<b>26</b>	<b>19,631</b>	<b>7</b>
Total Expenses	16,675	13,184	26	15,601	7
<b>Operating Profit</b>	<b>4,380</b>	<b>3,525</b>	<b>24</b>	<b>4,030</b>	<b>9</b>
Other Income	106	93	14	59	80
PBIT	4,486	3,619	24	4,089	10
Depreciation	280	319	(12)	393	(29)
Tax	1,254	861	46	1,134	11
<b>Profit After Tax</b>	<b>2,952</b>	<b>2,438</b>	<b>21</b>	<b>2,563</b>	<b>15</b>
Basic EPS (₹)	30.6	25.3	21	26.6	15
Diluted EPS (₹)	30.6	25.3	21	26.6	15

Source: Company, R K Global Research Estimates

\*\*P/E & \*\*\*P/BVPS computed on CMP of ₹3,943, as on 13<sup>th</sup> Jan'2012

CMP- ₹942

**Colgate Palmolive India Ltd**  
"Initiate BUY"

Target Price- ₹1105

### Market Data

Bloomberg Code	CLGT IN
Reuters Code	COLG.BO
SENSEX	16154
NIFTY	4866
Dividend Yield (%)	2.2
52 Week High/ Low(₹)	1085/716
Equity Capital(₹ mn)	1359
Face Value (₹)	1
Market Cap (₹ mn)	129150
Avg. 10 day Vol. NSE	119544
Time Period (Months)	12

Source: Company, R K Global Research, as on 13<sup>th</sup>Jan'12

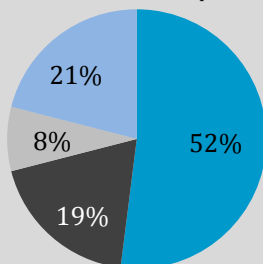
### Key Market Ratios

TTM EPS (₹)	29
TTM Book Value (₹)	28
TTM PE (x)	27
TTM P/BV (x)	28
TTM EV/EBIDTA (x)	19
EV/TTM Sales (x)	4.8
Mcap/TTM Sales (x)	5

Source: Company, R K Global Research, as on 30<sup>th</sup>Sep'11

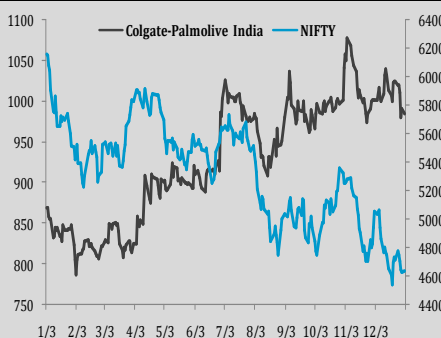
### Share-Holding Pattern (%)

■ Promoters ■ FII's ■ DIIs & Corp. Bodies ■ Others



Source: Company, R K Global Research, as on 30<sup>th</sup>Sep'11

### Price v/s NIFTY



Source: Company, R K Global Research, as on 03<sup>rd</sup>Jan'11

### Research Analyst:

Sourav Ghosh  
Sourav.ghosh@rkglobal.in

**Oral care is one of the underpenetrated industry in Indian FMCG sector with ~64.3% penetration in toothpaste segment. Colgate enjoys strong brand equity with its Colgate dental cream being the largest distribute product in Indian toothpaste market (4.1 mn outlets). Colgate- Strong brand equity to drive sustainable growth. Its recent mouth wash launches have been showing good growth momentum, enabling the company to gather ~26.4% market share in ₹1 bn market which is growing at ~35% rate every year since FY'10**

Oral care is one of the personal categories which also have low weightage in the monthly household budget therefore its price sensitivity is low. We also witnessed this thesis while forecasting Colgate's numbers for the period in which volume growth was maintained despite taking price hike on most of the brands. We do not expect to see much moderation in the revenue numbers but expect better price growth in Q3-Q4FY'12E. High A&P spend, as Colgate is the only company in FMCG space that saw an increase in A&P spent in H1FY12 while most of the other players were protecting profitability through lower A&P spends. Colgate's aggression was to expand its market share as well as to promote sensitive oral care segment. We believe Colgate would continue to spend high on A&P in FY'12E.

**Colgate should comfortably grow at ~23% IN Q3FY'12E. However, margins may witness contraction due to high raw material prices** Increased promotional activities for new launches and increasing competition from other MNC players, like, HUL and GSK Pharmaceuticals could throw some pressure on the company's front but that would be negligible. Our revenue for the period stands at ₹7,101 mn, up by ~23% YoY. EBIDTA for the period as per our forecasting stand at, ₹1,784, while operating margins are at ~25%. PAT stands at ₹1,415, while PAT margin at ~20%.

**Valuation & Outlook: Sustain volumes+new oral care launches to induce strength slowly, gushing for a voluminous leader's position.** At CMP, the stock trades at a P/E and a P/BVPS of ~26.1 & ~3.8x respectively of FY'13E EPS & BVPS. Thereby, we initiate a **BUY** rating on the Colgate-Palmolive India stock, with a 12M TP of ₹1,105, with a potential upside of ~15% from current levels), factored over a P/E\*\* of ~30.7x & a P/BVPS\*\*\* of ~4.5x, using, FY'13E EPS of ₹36 and BVPS of ₹245.

Desc. (mn)	Q3FY'12E	Q3FY'11A	YoY (%)	Q2FY'12A	QoQ (%)
<b>Revenue</b>	<b>7,101</b>	<b>5,766</b>	<b>23</b>	<b>6,755</b>	<b>5</b>
Total Expenditure	5,317	4,836	10	5,448	(2)
<b>Operating Profit</b>	<b>1,784</b>	<b>931</b>	<b>92</b>	<b>1,308</b>	<b>36</b>
Other Income	108	92	17	95	14
PBDIT	1,893	1,023	85	1,403	35
<b>Depreciation</b>	<b>99</b>	<b>86</b>	<b>15</b>	<b>95</b>	<b>4</b>
Tax	379	250	51	293	29
<b>Profit After Tax</b>	<b>1415</b>	<b>687</b>	<b>106</b>	<b>1015</b>	<b>39</b>
Basic EPS (₹)	10	5	106	8	39
Diluted EPS (₹)	10	5	106	8	39

Source: Company, R K Global Research Estimates

\*\*P/E & \*\*\*P/BVPS computed on CMP of ₹942, as on 13<sup>th</sup>Jan'2012

CMP- ₹182

Titan Industries Ltd  
"Initiate HOLD"

Target Price- ₹201

### Market Data

Bloomberg Code	TTAN IN
Reuters Code	TITN.BO
SENSEX	16154
NIFTY	4866
Dividend Yield (%)	1.4
52 Week High/ Low(₹)	237/140
Equity Capital(₹ mn)	443
Face Value (₹)	1
Market Cap (₹ mn)	161660
Avg. 10 day Vol. NSE	2871754
Time Period (Months)	12

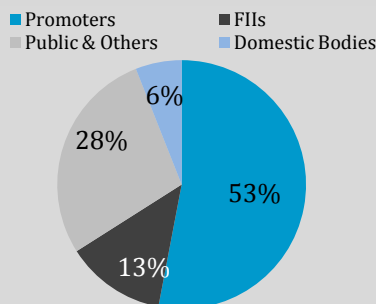
Source: Company, R K Global Research, as on 13<sup>th</sup>Jan'12

### Key Market Ratios

TTM EPS (₹)	9.6
TTM Book Value (₹)	231
TTM PE (x)	39.3
TTM P/BV (x)	16.5
TTM EV/EBIDTA (x)	24.7
EV/TTM Sales (x)	2.4
Mcap/TTM Sales (x)	2.5

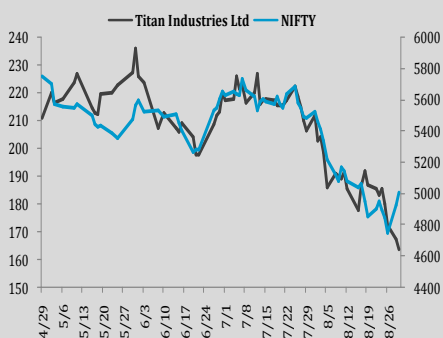
Source: Company, R K Global Research, as on 30<sup>th</sup>Sep'11

### Share-Holding Pattern (%)



Source: Company, R K Global Research, as on 30<sup>th</sup>Sep'11

### Price v/s NIFTY



Source: Company, R K Global Research, as on 03<sup>rd</sup>Jan'11

### Research Analyst:

Sourav Ghosh  
Sourav.ghosh@rkglobal.in

*We see impressive numbers for the Q3FY'12E and we are confident that Titan could achieve our forecasted top-line and bottomline for the Q. The company is present across many price segments, so we feel that it will be able to fine-tune the offerings both by way of product and consumer schemes to generate demand*

In the consumer goods side and especially in retail, Diwali was lukewarm, however, post Diwali, sales rose and that impacted jewellery purchases positively. Moreover, the volatility of rising inflation cooled down during the year end festive season and economic momentum somehow gained and has been improving, and thus we have expected good improvement in volume sales. Our revenue forecast for the period of Q3FY'12 stands at ₹28,672 mn, up by ~47% YoY solely on the rise of jewellery volumes.

### Relation between gold price & sales, bucking the usual trend in FY'12

Consumers are finding the gold prices unpredictable but continue to buy. When it continues to rise, consumers do buy. Moreover, the recently enacted BIS certification and rising purity consciousness have also helped sales rise.

### INR depreciation to help, due to linking to USD price of gold purchases

We expect this has helped the jewellery business because the USD price of gold dropped but the INR price remained at a high and didn't drop much, so customers therefore didn't feel the downward trend much. As the company's margins are linked to the price, so we feel this is good for Titan's margins as we don't see much fall beyond ~100 bps, while EBIDT stands at ₹2,551 mn.

### Watches segment continues relieving on new brands' introduction

Favre Leuba's portfolio consists of unique and technologically driven premium offerings in line with Titan's recent launch of HTSE collection and the earlier launched Xylys, are expected to add good numbers to revenue.

### Valuation & Outlook: Stock movement to be muted, upside remains

The present volatility is expected not to impact deep on the company+different price segments will suffice margins on nay contraction. At CMP, Titan Indus. trades at a P/E & P/BV of ~20x and ~8x respectively over FY'13E EPS and BVPS. We initiate **HOLD** rating on the stock, with a 12M TP of ₹201 (expected upside of ~9.4% from present levels), factored over a P/E\*\* of ~22.3x & P/BVPS\*\*\* of ~8.3x using FY'13E EPS of ₹9 & BVPS of ₹23.

Desc. (₹ mn)	Q3FY'12E	Q3FY'12A	YoY (%)	Q2FY'11A	QoQ (%)
Revenue	28,672	19,548	47	20,965	37
Expenditures	26,121	17,596	48	18,961	38
<b>EBIDTA</b>	<b>2,551</b>	<b>1,952</b>	<b>31</b>	<b>2,004</b>	<b>27</b>
Other Income	181	153	19	200	(9)
PBIDT	2,732	2,105	30	2,204	24
Depreciation	262	86	203	105	149
Interests	52	21	152	3	1623
PBT	2,419	1,998	21	2,096	15
Tax	640	623	3	614	4
<b>Profit After Tax</b>	<b>1,779</b>	<b>1,375</b>	<b>29</b>	<b>1,482</b>	<b>20</b>
Basic EPS (₹)	2	1.5	29	1.7	20
Diluted EPS (₹)	2	1.5	29	1.7	20

Source: Company, R K Global Research Estimates

\*\*P/E & \*\*\*P/BVPS computed on CMP of ₹182, as on 13<sup>th</sup> Jan'2012

CMP- ₹2772

Asian Paints Ltd  
"Initiate HOLD"

Target Price- ₹2957

### Market Data

Bloomberg Code	APNT IN
Reuters Code	ASPN.BO
SENSEX	16154
NIFTY	4866
Dividend Yield (%)	1.2
52 Week High/ Low(₹)	3387/2364
Equity Capital(₹ mn)	959
Face Value (₹)	10
Market Cap (₹ mn)	264550
Avg. 10 day Vol. NSE	26401
Time Period (Months)	12

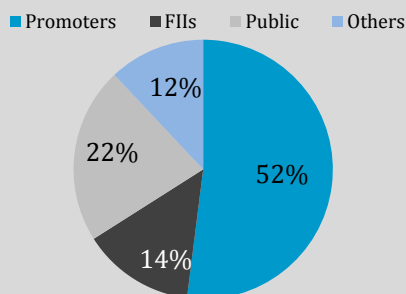
Source: Company, R K Global Research, as on 06<sup>th</sup>Jan'12

### Key Market Ratios

TTM EPS (₹)	81
TTM Book Value (₹)	206
TTM PE (x)	31.2
TTM P/BV (x)	12.2
TTM EV/EBIDTA (x)	19.6
EV/TTM Sales (x)	3.8
Mcap/TTM Sales (x)	3.8

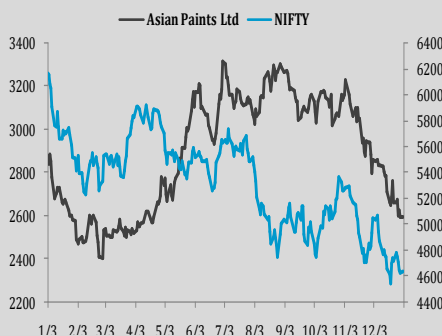
Source: Company, R K Global Research, as on 30<sup>th</sup>Sep'11

### Share-Holding Pattern (%)



Source: Company, R K Global Research, as on 30<sup>th</sup>Sep'11

### Price v/s NIFTY



Source: Company, R K Global Research, as on 03<sup>rd</sup>Jan'11

### Research Analyst:

Sourav Ghosh  
Sourav.ghosh@rkglobal.in

**Continued pickup in urban discretionary demand and leadership position in a growing market with relatively benign competitive intensity, underline our positive investment outlook on Asian Paints (APL), as it continues to remain the leader in the industry and henceforth, we expect impressive revenues in Q3FY'12E**

We believe that Asian Paints is a direct play on the growing economy and India consumption story. Apart from consumption and penetration-led opportunity, several favorable demographic catalysts viz. rising income levels, increasing urbanization and nuclear families can act as structural growth drivers for decorative paints demand growth for housing construction growth. New projects in industrial segments increase revenues from protective coatings for civil applications and road-marking paints to all parts of the building paints sector. Thereby, our forecasted result for Q3FY'12E also reflects our belief, and stands at ₹23,034 mn, up by ~31% YoY and QoQ growth of ~25% for the period.

### Capacity addition remains, quantifies increase in paints demand

Reversion of slight bottom-trend will not be a concern. Volume growth in the months passing will remain strong, especially in the rural regions where income has increased in accordance with developmental plans' like, MGNREGA. This correlates that Asian Paints bought land in Maharashtra for a green-field mega project earlier in FY'12 with a capacity of 4 LTPA. An amount of ₹7,350 mn would be spent on the project till FY'16.

### Margins not to be impacted however may see some revision

We believe higher volume growth in Q3 would result in higher sales growth as demand for decorative paints (especially the higher margins emulsions business) would remain strong in spite of higher prices.

### Valuation & Outlook: Near-term upsides unlikely, prefer long

We expect Q3FY'12E volumes to rise on QoQ in light of the festive demand, however, being a discretionary product category, we expect eco. growth could be baloney. At CMP, APL trades at a P/E of ~20.7x & P/BVPS of 7.4x of FY'13E EPS & BVPS. We initiate a **HOLD** rating on the APL with 12M TP of ₹2,957 (upside potential of ~7% from current levels) factored over a P/E\*\* of ~22x & P/BVPS\*\*\* of ~7.8x, using FY'13E EPS of ₹134 & BVPS of ₹376.

Desc. (₹ mn)	Q3FY'12E	Q3FY'11A	YoY (%)	Q2FY'12A	QoQ (%)
<b>Revenue</b>	<b>23,034</b>	<b>17,542</b>	<b>31</b>	<b>18,436</b>	<b>25</b>
Expenditures	18,870	14,526	30	15,610	21
<b>EBIDTA</b>	<b>4,164</b>	<b>3,016</b>	<b>38</b>	<b>2,826</b>	<b>47</b>
Other Income	377	207	82	493	(23)
PBDIT	4,541	3,223	41	3,319	37
Depreciation	258	236	9	250	3
Interests	42	41	3	66	(37)
PBT	4,241	2,946	44	3,003	41
Tax	1,298	883	47	874	49
<b>Profit After Tax</b>	<b>2,943</b>	<b>2,063</b>	<b>43</b>	<b>2,129</b>	<b>38</b>
Basic EPS (₹)	31	22	43	22	38
Diluted EPS (₹)	31	22	43	22	38

Source: Company, R K Global Research Estimates

\*\*P/E & \*\*\*P/BVPS computed on CMP of ₹2,772, as on 13<sup>th</sup> Jan'2012

**For Suggestions, clarifications & your valuable feedback write back to us at:**

#### R K Global Research

##### R K Global Shares & Securities Ltd:

Flat No.: B12, Park Tower,  
67B Ballygunge Circular Road,  
Kolkata – 700 019  
Board: +91 (33) 4017 4999  
E-Mail: research@rkglobal.in

#### R K Global Institutional Sales

##### R K Global Shares & Securities Ltd:

503 & 504 Adamji Building,  
Narsi Natha Street, Masjid Bunder (West)  
Mumbai- 400 009  
Board: +91 (22) 4360 2222  
E-Mail: inst.desk@rkglobal.in

#### Locate Us...

City	Address	Contact
<b>Ahmedabad</b>	501, Wall Street, near Gujarat College, Ahmedabad-380 006	+91 (79) 4002 0999
<b>Delhi</b>	Suite 5, Sagar Apartment, 6 Tilak Marg, New Delhi-110 001	+91 (11) 4310 0999
<b>Jaipur</b>	248, Ganpati Plaza, 2 <sup>nd</sup> Floor, M I Road, Jaipur-302 001	+91 (141) 404 0999
<b>Kolkata</b>	2 Saklat Place, Suite 9, Kolkata- 700 072	+91 (33) 4014 1999
<b>Mumbai</b>	308, 3 <sup>rd</sup> Floor Morya Estate, Opposite Infiniti Mall, New Link Road, Andheri West, Mumbai-400 053	+91 (22) 4210 5555
<b>Chennai</b>	163/2, Kutcherri Road, Mylapore Chennai- 600 004	+91 (44) 4593 9999

#### Rating Criteria

**BUY** Stock to generate return above 15% from CMP over the next 12 months period  
**HOLD** Stock to generate return between 0-15% from CMP over the next 12 months period  
**SELL** Stock to generate less than 0% from CMP over the next 12 months period

#### Coverage Terminology

IC = Initiating Coverage  
 RU = Result Update  
 EU = Event Update  
 NC = Not Covered

[www.rkglobal.net](http://www.rkglobal.net)

**Disclaimer:** This document is not for public distribution and has been furnished to you solely for your information and must not be reproduced or redistributed to any other person. Persons into whose possession this document may come are required to observe these restrictions. Opinion expressed is our current opinion as of the date appearing on this material only. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice. Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein. The information in this document has been printed on the basis of publicly available information, internal data and other reliable sources believed to be true and are for general guidance only.

While every effort is made to ensure the accuracy and completeness of information contained, the company takes no guarantee and assumes no liability for any errors or omissions of the information. No one can use the information as the basis for any claim, demand or cause of action. Recipients of this material should rely on their own investigations and take their own professional advice. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult their own advisors to determine the merits and risks of such an investment. R K Global, its directors, analysts or employees do not take any responsibility, financial or otherwise, of the losses or the damages sustained due to the investments made or any action taken on basis of this report.