



Godrej Consumer Products

STOCK INFO.	BLOOMBERG
BSE Sensex: 18,513	GCPL IN
	REUTERS CODE
S&P CNX: 5,496	GOCP.BO

24 October 2007

Buy

Previous Recommendation: Neutral

Rs117

Equity Shares (m)	226.4
52-Week Range	194/118
1,6,12 Rel. Perf. (%)	-25/-60/-79
M.Cap. (Rs b)	26.5
M.Cap. (US\$ b)	0.7

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
03/07A	9,532	1,342	5.9	12.5	19.7	24.4	123.8	90.8	2.8	15.0
03/08E	11,564	1,596	7.1	19.0	16.6	24.2	145.8	120.9	2.3	12.7
03/09E	13,017	1,880	8.3	17.8	14.0	23.5	167.2	127.0	2.0	11.0

- Godrej Consumer Products (GCPL) has reported in-line results for 2QFY08. Though sales at Rs2.7b were 2% lower than our estimate, EBITDA margins expanded 120bp. The company posted a consolidated PAT of Rs371m.
- Standalone sales grew 15.2% (gross sales increased 12.2%), driven by excise duty decline of 41%, as new excise-free units in Katha and Sikkim commenced production. Gross margins increased 160bp; without considering the excise duty benefits, gross margins would have declined by 20bp. EBITDA increased 28% despite 27% jump in advertising spend (against 15.7% decline in 1QFY08). PAT increased by 29% as 160% increase in other income helped mitigate the impact of higher depreciation on new plants.
- Soap sales increased 17.2%, led by *Godrej No 1*, which emerged as the second largest selling soap in India. GCPL's market share in soaps increased to 10.2% in 2QFY08 as against 10% in 1QFY08. Hair Color market share declined to 34.9% from 35.9% in 1QFY08 and 37.6% in 2QFY07. Toiletries grew 24% while liquid detergents de-grew 28%.
- Keyline brands reported 16% increase in sales from Rs463m to Rs541m, PAT declined 39% from Rs44m to Rs27m due to TV campaign of the *Cuticura* brand in UK. Rapidol reported sales of Rs117m and PAT of Rs7m.
- GCPL has launched *Renew* hair cream in six variants and powder hair color in the premium range. The management expects Hair Color business volumes to improve after the re-launch of powder hair dye in 3QFY08. Entry of ITC in the popular segment of Soaps, with *Superia* brand is likely to result in intense competition for GCPL in a market, which is showing initial signs of slowdown. While rising competition is a cause for concern, the stock price factors in most of these negatives. The stock has already seen a sharp de-rating, and now offers a dividend yield of 4.5% and quotes at 14x FY09E earnings. We upgrade our stock recommendation to **Buy**.

QUARTERLY PERFORMANCE

(Rs Million)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Net Sales	2,376	2,318	2,380	2,424	2,863	2,740	2,950	3,011	9,532	11,564
YoY Change (%)	41.7	47.6	29.3	26.6	20.5	18.2	23.9	24.2	36.2	21.3
Total Exp	1,955	1,922	1,865	1,993	2,352	2,239	2,350	2,528	7,735	9,468
EBITDA	421	397	516	431	511	501	600	483	1,798	2,096
Margins (%)	17.7	17.1	21.7	17.8	17.9	18.3	20.3	16.1	18.9	18.1
Depreciation	31	31	36	45	44	46	42	56	142	188
Interest	18	26	33	20	35	32	30	23	96	120
Other Income	8	28	17	6	13	14	10	10	27	47
PBT	381	369	464	372	445	437	538	414	1,586	1,834
Tax	53	59	68	64	59	67	65	48	243	238
Rate (%)	13.9	15.9	14.6	17.3	13.1	15.2	12.1	11.7	15.3	13.0
PAT	328	310	396	308	386	371	473	366	1,343	1,596
YoY Change (%)	21.0	11.5	10.5	2.3	17.7	19.5	19.5	18.8	12.5	18.9
Extraordinary Expenses	13	0	0	86	0	0	0	0	99	0
Reported PAT	315	310	396	394	386	371	473	366	1,441	1,596

E: MOST Estimates

SEGMENTAL PERFORMANCE – STANDALONE

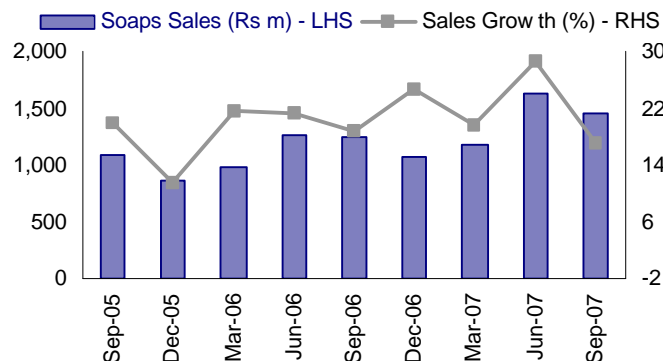
SALES	2QFY08	2QFY07	CHG (%)	1HFY08	1HFY07	CHG (%)
Soaps	1,453	1,240	17.2	3,081	2,505	23.0
Hair Colors	445	397	12.0	968	870	11.3
Toiletries	137	113	21.4	293	245	19.8
Liquid Detergents	280	389	-28.0	391	489	-20.0
By Products	403	364	10.7	795	720	10.4

Source: Company/Motilal Oswal Securities

Toilet Soaps: increases market share; competition to intensify

GCPL's own brands in Toilet Soaps reported 17.2% revenue growth in 2QFY08 and its market share (in value terms) increased to 10.2%. We estimate that volume growth for the company was in high single-digits only, which indicates a slowdown in comparison to 15-20% volume growth earlier. *Cinthol* and *Fairglow* grew faster than *Godrej No 1* during the quarter. The management indicated some slowdown in toilet soaps.

SOAPS: QUARTERLY REVENUE TREND



Source: Company/Motilal Oswal Securities

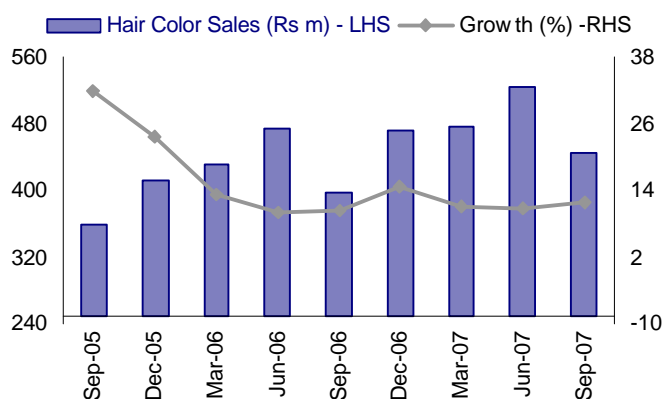
Raw material prices continued to rule firm, with palm oil prices rising above MYR2,800/ton due to crude oil prices advancing to US\$90/barrel. The management has indicated another round of price hike in soaps, depending on the competitive intensity in the industry. ITC has entered Soaps, with its *Superia* brand, targeted at the popular segment of the market. ITC's *Superia* will compete with *Godrej No 1*. The management expects competition to intensify, impacting its ability to pass on cost increases.

Hair Color: hinges on new initiatives

GCPL reported 12.2% increase in sales for 2QFY08 and lost 270bp YoY and 100bp QoQ market share, with flat

volumes. The company continues to grow below industry average due to higher growth in premium cream-base colors, which are not a strong point for GCPL. The company has launched *Renew* in small packs and six new variants during the quarter. It has launched premium powder hair color to increase its presence in that segment. GCPL plans to re-launch the powder hair dye to emphasize the improved formulation, which includes new perfume and conditioner. The management expects the Hair Color business to start improving in another 1-2 quarters.

HAIR COLOR: QUARTERLY REVENUE TREND

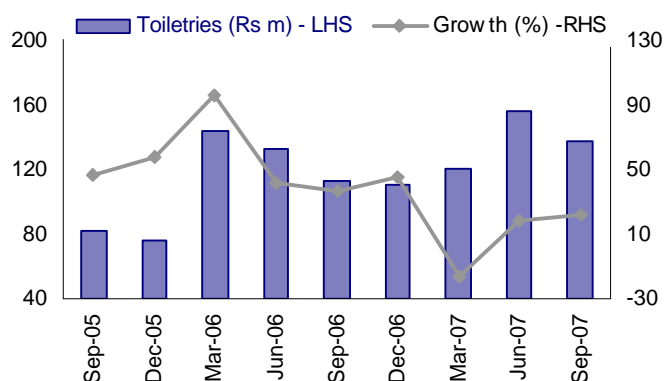


Source: Company/Motilal Oswal Securities

Toiletries: maintain growth momentum

Toiletries reported revenue growth of 21.4% YoY for 2QFY08, driven by strong growth in talcum powder and shaving creams. *Erasmic* shaving gel, the first product from Keyline, has been well received in the Indian market. GCPL test launched *No 1 Almond Shampoo* priced at Rs25 for 100ml in Maharashtra and Andhra Pradesh.

TOILETRIES: QUARTERLY REVENUE TREND



Source: Company/Motilal Oswal Securities

Keyline: ad campaign impacts margins

Keyline Brands reported sales growth of 16% while PAT declined 39% due to increased spend on advertising. Keyline re-launched *Cuticura* with advertising on electronic media, which impacted profits. Sales have been impacted by a wet summer and rupee appreciation against the pound (6% impact). Managements expects Keyline performance to pick up in the coming quarters, although the long-term topline growth would be in mid single-digits only.

PERFORMANCE OF KEYLINE BRANDS (RS M)

	KEYLINE			
	2QFY08	2QFY07	1HFY08	1HFY07
Sales	541	463	932	924
PBIT	53	74	89	134
PBT	41	64	68	115
PAT	27	44	46	80
PAT Margin (%)	5.0	9.5	4.9	8.7

PERFORMANCE OF RAPIDOL (RS M)

	RAPIDOL			
	2QFY08	2QFY07	1HFY08	1HFY07
Sales	117	30	236	30
PBIT	12	5	29	5
PBT	11	5	29	5
PAT	7	4	20	4
PAT Margin %	6.0	13.3	8.5	13.3

Source: Company/Motilal Oswal Securities

Valuation and view

GCPL has commissioned two plants in Katha (soaps) and Sikkim (hair colors and toiletries) and will commission expanded soap capacity at Malanpur, shortly. The major capex is already through and new facilities in tax-free zones will increase its competitiveness, further. GCPL has launched *Renew* hair cream in six variants and powder hair color in the premium range. The Management expects the Hair Color business volumes to improve after the re-launch of powder hair dye in 3QFY08.

Entry of ITC in the popular segment of Soaps, with *Superia* brand is likely to result in intense competition for GCPL in a market, which is showing initial signs of slowdown. While rising competition is a cause for concern, the stock price factors in most of these negatives. The stock has already seen a sharp de-rating, and now offers a dividend yield of 4.5% and quotes at 14x FY09E earnings. We upgrade our stock recommendation to **Buy**.

Godrej Consumer Products: an investment profile

Company description

Godrej Consumer Products Ltd. is a market leader in Rs.4.5b hair dye/color segment with a market share of approximately 38%. Hair Dye/Color segment is one of the fastest growing category in the FMCG market with growth rates expected to average in excess of 20% annually. GCPL is a second largest player in the soaps market with a market share of 9.2%.

Key investment arguments

- ☞ Toiletries business which has grown by 63% in FY06 has huge longterm potential.
- ☞ The hair colour category has high growth potential over the longer term given the low penetration (19%) and increasing incomes.

Key investment risks

- ☞ Lower than market growth rate in Cream based Hair colours is a long-term growth risk.
- ☞ Delay in the launch of new product in Toiletries segment will enable MNCs and Private labels to enter value for money segment

Recent developments

- ☞ Nil

Valuation and view

- ☞ Our consolidated EPS estimates are Rs7.1 for FY08 and Rs8.3 for FY09.
- ☞ The stock trades at 16.6x FY08E and 14x FY09E consolidated earnings. We upgrade our stock recommendation to **Buy**

Sector view

- ☞ We are positive on the sector, which is witnessing strong volume growth across product categories, with improving pricing power for leading players.
- ☞ Companies with low competitive pressures and broad product portfolios will be able to better withstand any slowdown in a particular segment.
- ☞ Longer term prospects bright, given rising incomes and low penetration.

COMPARATIVE VALUATIONS

		GCPL	DABUR	MARICO
P/E (x)	FY08E	16.6	27.0	23.7
	FY09E	14.0	21.5	19.1
P/BV (x)	FY08E	24.2	14.6	15.6
	FY09E	23.5	11.0	11.0
EV/Sales (x)	FY08E	2.3	3.4	2.1
	FY09E	2.0	2.9	1.8
EV/EBITDA (x)	FY08E	12.7	21.3	14.9
	FY09E	11.0	17.5	12.3

SHAREHOLDING PATTERN (%)

	JUN-07	MAR-07	JUN-06
Promoter	67.8	67.8	68.2
Domestic Inst	1.5	2.9	2.5
Foreign	19.0	17.8	17.7
Others	11.7	11.5	11.6

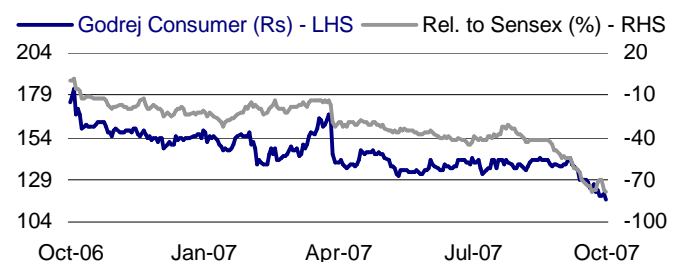
EPS: MOST FORECAST VS CONSENSUS (RS) (STANDALONE)

	MOST FORECAST	CONSENSUS FORECAST	VARIATION (%)
FY08	7.1	7.3	-2.9
FY09	8.3	8.6	-3.6

TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
117	142	21.0	Buy

STOCK PERFORMANCE (1 YEAR)



INCOME STATEMENT - STANDALONE					
(Rs Million)					
Y/E MARCH	2005	2006	2007	2008E	2009E
Net Sales	5,627	6,997	9,532	11,564	13,017
Change (%)	14.5	24.4	36.2	21.3	12.6
Total Expenditure	4,622	5,585	7,735	9,468	10,632
EBITDA	1,005	1,412	1,797	2,096	2,385
Change (%)	15.1	40.6	27.2	16.7	13.8
Margin (%)	17.9	20.2	18.9	18.1	18.3
Depreciation	107	115	142	188	199
Int. and Fin. Charges	31	69	96	120	113
Other Income-rec.	39	77	27	47	87
PBT	906	1,306	1,585	1,834	2,161
Change (%)	18.3	44.1	21.4	15.7	17.8
Margin (%)	16.1	18.7	16.6	15.9	16.6
Tax	74	127	230	257	303
Deferred Tax	-3	14	-13	18	22
Tax Rate (%)	7.7	10.7	13.7	15.0	15.0
PAT	829	1,193	1,342	1,596	1,880
Change (%)	27.9	43.9	12.5	19.0	17.8
Margin (%)	14.7	17.0	14.1	13.8	14.4
Non-rec. (Exp.)/Income	67	20	99	0	0
Reported PAT	896	1,213	1,440	1,596	1,880

BALANCE SHEET					
(Rs Million)					
Y/E MARCH	2005	2006	2007	2008E	2009E
Share Capital	226	226	226	226	226
Reserves	272	561	858	868	899
Networth	499	787	1,084	1,094	1,125
Loans	61	687	1,003	773	940
Deferred Liability	79	66	79	60	39
Capital Employed	639	1,540	2,166	1,928	2,104
Gross Block	1,799	1,771	2,938	3,110	3,285
Less: Accum. Depn.	-791	-992	-1,134	-1,322	-1,521
Net Fixed Assets	1,008	779	1,804	1,788	1,764
Capital WIP	7	71	20	20	20
Goodwill	0	851	1,236	1,236	1,236
Investments	0	11	25	316	855
Currents Assets	1,031	1,714	1,949	1,953	2,053
Inventory	738	1,005	1,155	1,360	1,505
Account Receivables	52	303	235	285	321
Cash and Bank Balance	90	263	407	148	195
Loans and Advances	152	143	151	160	32
Curr. Liab. & Prov.	1,406	1,885	2,869	3,385	3,825
Account Payables	939	1,245	1,805	2,056	2,297
Other Liabilities	417	579	833	1,035	1,183
Provisions	50	62	230	295	344
Net Current Assets	-375	-171	-920	-1,432	-1,772
Net Assets	639	1,540	2,166	1,928	2,104

E: MOST Estimates

RATIOS					
Y/E MARCH	2005	2006	2007	2008E	2009E
Basic (Rs)					
EPS	3.7	5.3	5.9	7.1	8.3
Cash EPS	3.2	4.8	5.3	6.2	7.4
BV/Share	2.2	3.5	4.8	4.8	5.0
DPS	3.0	3.5	4.5	5.5	6.5
Payout (%)	81.9	66.3	75.8	77.8	78.1
Valuation (x)					
P/E		22.1	19.7	16.6	14.0
Cash P/E		24.5	22.0	18.8	15.7
EV/Sales		3.8	2.8	2.3	2.0
EV/EBITDA		19.0	15.0	12.7	11.0
P/BV		33.7	24.4	24.2	23.5
Dividend Yield		3.0	3.8	4.7	5.6
Return Ratios (%)					
RoE	166.3	151.6	123.8	145.8	167.2
RoCE	179.9	104.2	90.8	120.9	127.0
Working Capital Ratios					
Debtor (Days)	3	16	9	9	9
Asset Turnover (x)	5.5	8.2	5.2	6.4	7.3
Leverage Ratio					
Debt/Equity (x)	12.3	87.3	92.6	70.7	83.6

CASH FLOW STATEMENT					
(Rs Million)					
Y/E March	2005	2006	2007	2008E	2009E
OP/(Loss) before Tax	1,111	1,527	1,939	2,285	2,584
Int./Div. Received	39	77	27	47	87
Depreciation and Amort.	-107	-115	-142	-188	-199
Interest Paid	31	69	96	120	113
Direct Taxes Paid	74	127	230	257	303
(Inc)/Dec in WC	27	-30	893	252	388
CF from Operations	1,175	1,655	3,043	2,771	3,276
Extraordinary Items	67	20	99	0	0
(Inc)/Dec in FA	-76	-36	-1,117	-172	-176
(Pur.)/Sale of Investments	-269	-11	-14	-291	-539
CF from Investments	-278	-27	-1,033	-463	-715
Issue of Shares	48	2	47	0	0
(Inc)/Dec in Debt	-181	-13	0	0	0
Dividend Paid	-679	-790	-1,016	-1,242	-1,468
Other Item	179	-295	-436	-512	-824
CF from Fin. Activity	-633	-1,096	-1,405	-1,755	-2,292
Inc/Dec of Cash	264	532	605	554	269
Add: Beginning Balance	140	90	263	407	148
Closing Balance	90	263	407	148	195



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Disclosure of Interest Statement

Godrej Consumer Products

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|---|----|
| 1. Analyst ownership of the stock | No |
| 2. Group/Directors ownership of the stock | No |
| 3. Broking relationship with company covered | No |
| 4. Investment Banking relationship with company covered | No |

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