

Godrej Consumer Products

STOCK INFO.	BLOOMBERG
BSE SENSEX: 9,465	GCPL IN
	REUTERS CODE
S&P CNX: 2,884	GOCP.BO

23 January 2006

Buy

Rs569

Previous Recommendation: Buy

Equity Shares (m)	56.6
52-Week Range	599/260
1,6,12 Rel. Perf. (%)	9/21/42
M.Cap. (Rs b)	32.2
M.Cap. (US\$ b)	0.7

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/05A	5,627	829	14.7	27.9	38.8	64.6	166.3	146.6	5.7	32.0
03/06E	6,596	1,157	20.6	40.7	27.6	58.9	211.6	163.6	4.9	24.5
03/07E	7,456	1,377	24.5	19.0	23.2	48.7	208.4	157.3	4.3	20.9

Not consolidated for Keyline Brands Limited

- Godrej Consumer's unconsolidated PAT grew 38.8% YoY to Rs361m compared with our estimate of Rs337m.
- Sales for 3FY06 grew 10.2% YoY, the lowest sales growth in the last five quarters. Revenue growth was lower than our expectations primarily due to lower sales growth in the soaps segment, primarily due to inventory corrections at distributors level. Retail offtake was approximately 5% higher than company's offtake.
- EBITDA margins expanded 280bp to 23.9% as strong topline growth and stable vegetable prices boosted margins. Increase in price realizations for the hair color segments due to price hikes adopted in April 2005 also boosted margins.
- Keyline Brands Ltd. was consolidated with effect from 31 October 2005 and clocked revenues of £1.9m during November-December 2005. The company booked a one-time financial cost of Rs7.9m on account of the acquisition. Consolidated PAT (excluding the one-time cost) was Rs366m.
- We maintain our unconsolidated EPS estimates for FY06 at Rs20.6 and for FY07 at Rs24.5 respectively. We introduce our FY08 EPS estimates at Rs28.5. Consolidating for Keyline acquisition; we believe the company should earn EPS of Rs21.2, 27.2 and 31.5 for FY06E, FY07E and FY08E respectively. The stock is trading at 26.8x, 20.9x and 18.1 x consolidated EPS for FY06E, FY07E and FY08E. Although already rich, we expect valuations to sustain give the strong outlook. We reiterate **Buy** with a price target of Rs630.

QUARTERLY PERFORMANCE

(Rs Million)

Y/E MARCH	FY05				FY06				FY05	FY06E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Net Sales	1,366	1,342	1,535	1,384	1,677	1,571	1,691	1,657	5,627	6,596
YoY Change (%)	14.8	9.7	19.7	13.5	22.8	17.1	10.2	19.7	14.5	17.2
Total Exp	1,142	1,126	1,211	1,143	1,346	1,300	1,287	1,353	4,622	5,286
EBITDA	223	217	324	241	331	271	404	304	1,005	1,309
Margins (%)	16.4	16.1	21.1	17.4	19.7	17.2	23.9	18.3	17.9	19.9
Depreciation	-25	-26	-28	-27	-27	-27	-27	-31	-107	-113
Interest	-7	-8	-9	-1	-9	-9	-11	-14	-25	-42
Other Income	1	10	3	19	3	60	29	18	32	110
PBT	192	192	290	232	298	295	395	276	906	1,264
Tax	-19	-18	-30	-11	-27	-17	-34	-30	-77	-107
Rate (%)	9.7	9.2	10.3	4.7	9.0	8.0	8.5	10.7	8.5	8.5
PAT	173	174	260	221	271	278	361	247	829	1,157
YoY Change (%)	25.3	25.8	45.0	15.2	56.6	59.6	38.8	11.5	27.9	39.6
Extraordinary Expenses	0	0	0	0	0	0	0	0	0	0
Reported PAT	173	174	260	221	271	278	361	247	829	1,157

E: MOSSt Estimates; Not consolidated for Keyline Brands Limited

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Godrej revenue growth lower than expected

Revenue growth was lower than our expectations as Soap sales growth was impacted by the inventory correction at distributors level. However, the Hair Color segment continued to post strong growth on the back of healthy volume offtake. Higher price realizations on account of price hikes adopted in April 2005 for the hair color sachet also contributed to higher sales. A cold winter season saw Liquid Detergents post strong revenue growth.

SEGMENTAL PERFORMANCE (RS M)

	DEC.04	DEC.05	CH. (%)
Sales			
Soaps	867	886	2.1
Personal Care	663	806	21.5
EBIT			
Soaps	68	69	0.3
Personal Care	274	364	33.0
EBIT (%)			
Soaps	7.9	7.7	
Personal Care	41.3	45.2	

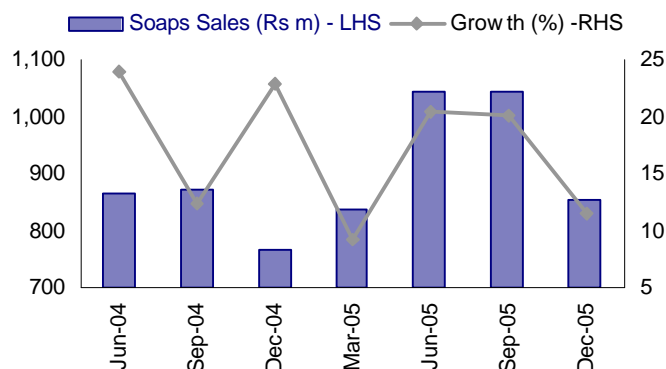
Source: Company/ Motilal Oswal Securities

Soaps revenue growth slower-than-expected even as market share improves

Soaps revenues grew 2.1% YoY with own brands growing at 12%. Overall revenue growth for the soaps division slowed during 3QFY06, even as the company improved its share to 9.5% during the quarter. The company has been focusing on improving its supply chain and reducing inventory with distributors. This has resulted in retail offtake (secondary sale) for soaps being higher than the company's offtake by approximately 5%.

Godrej Consumer's toilet soap offtake outpaced overall industry offtake again for the quarter, thereby resulting in increasing market share. Soap margins, however declined marginally from 7.9% in 3QFY05 to 7.7% in 3QFY06 primarily due to higher advertising spend. Management expects the outlook for sales of its soap brands to be strong over the next few years. Further, management intends to invest approximately Rs750m in this division over the next fifteen months.

SOAPS REVENUE GROWTH SLOWS

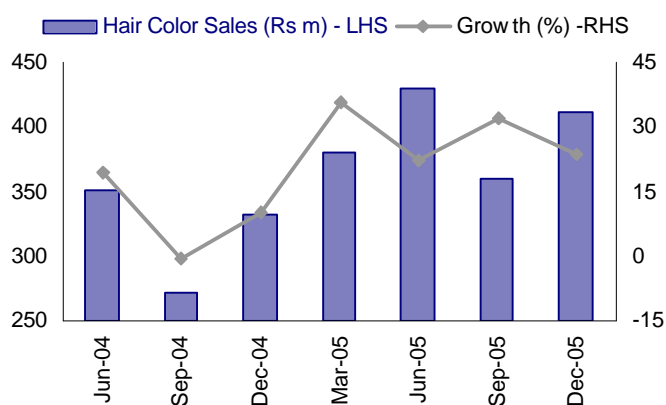


Source: Company/ Motilal Oswal Securities

Hair color growth momentum maintained

Hair color revenues grew at 32% YoY even as the company improved its market share to 41.2% in 2QFY06 from 40.2% in 1QFY06. Industry offtake growth at 27% was higher than the company's offtake growth at 24%. The company has managed to grab 1.5%-2% market share for its powder fashion hair color, which translates to approximately 5%-6% share in the fashion hair color segment (premium category). The hair color segment has grown 24% YoY for 9MFY06, indicating that price hikes adopted in this segment in April 2005 have not led to demand reduction.

HAIR COLOR REVENUE GROWTH REMAIN STRONG (RS M)



Source: Company/ Motilal Oswal Securities

Keyline acquisition to boost EPS

Godrej Consumer acquired 100% ownership interest in Keyline Brands effective 31 October 2005. Keyline clocked revenues of £16.7m and profit before tax of £2.2m in CY04. For the consolidated period of November-December 2005, Keyline clocked turnover of £1.9m. According to management, revenues for November-December 2005 were lower due to the seasonal nature of the business. Further, management added that Keyline has been witnessing approximately 15% YoY growth.

Keyline has a debt of approximately £8m as on 31 December 2005. Management expects Keyline to add approximately 15%-20% to the company's topline and 8%-10% to its bottomline. We believe overall growth will improve as Keyline brands are integrated into Godrej Consumer. Management further outlined that Keyline could acquire new brands in the UK markets to boost growth. We believe that Keyline could add Rs0.6, Rs2.7 and Rs2.9 to FY06E, FY07E and FY08E EPS respectively.

IMPACT OF KEYLINE CONSOLIDATION (RS M)

	FY06	FY07E	FY08E
Standalone Sales	6,596	7,456	8,386
Consolidated Keyline Sales	335	1,497	1,722
Consolidated Sales	6,931	8,953	10,108
Standalone PAT	1,157	1,377	1,603
Consolidated Keyline PAT	36	151	166
Consolidated PAT	1,193	1,528	1,769
Standalone EPS (Rs)	20.6	24.5	28.5
Consolidated Keyline EPS (Rs)	0.6	2.7	2.9
Consolidated EPS (Rs)	21.2	27.2	31.5

Source: Company/ Motilal Oswal Securities

Valuation and view

We maintain our unconsolidated EPS estimates for FY06 at Rs20.6 and for FY07 at Rs24.5 respectively. We introduce our FY08 EPS estimates at Rs28.5. Consolidating for Keyline acquisition; we believe the company should earn EPS of Rs21.2, Rs27.2 and Rs31.5 for FY06E, FY07E and FY08E respectively. The stock is trading at 26.8x, 20.9x and 8.1x consolidated EPS for FY06E, FY07E and FY08E respectively. Although already rich, we expect valuations to sustain give the strong outlook. We reiterate **Buy** with a price target of Rs630.

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 40%. 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 relatively small player in the soaps market with a market share of 8.3%.

Key investment arguments

- ✍ We expect EPS CAGR of 29% over FY05-07 driven by share gains in soaps and high category growth in hair colour.
- ✍ The hair colour category has high growth potential over the longer term given the low penetration (19%) and increasing incomes.

Key investment risks

- ✍ Competition in Hair Dye/Color segment may erode market share.
- ✍ Aggressive competition in the soap segments may lead to pricing pressures which may negatively affect the margins

Recent developments

- ✍ Acquired 100% ownership interest in Keyline Brands Limited, UK.
- ✍ Launched a new variant in soap category called Cinthol Deosport.

Valuation and view

- ✍ We have a consolidated EPS forecasts of Rs21.2, Rs27.2 and Rs31.5 for FY06, FY07 and FY08 respectively.
- ✍ The stock is trading at 26.8x, 20.9x and 18.1x FY06E, FY07E and FY08E EPS respectively. We maintain **Buy**.

Sector view

- ✍ We are neutral on the sector. There are signs of volume pickup, but input cost pressure remains
- ✍ Companies with low competitive pressures (like ITC) will be better off.
- ✍ Longer term prospects bright, given rising incomes and low penetration.

COMPARATIVE VALUATIONS

		GCPL (NOT CONS.)	DABUR	MARICO
P/E (x)	FY06E	27.6	28.9	27.3
	FY07E	23.2	23.1	21.3
P/BV (x)	FY06E	58.9	6.2	8.2
	FY07E	48.7	4.5	6.7
EV/Sales (x)	FY06E	4.9	1.7	2.0
	FY07E	4.3	1.4	1.7
EV/EBITDA (x)	FY06E	24.5	11.1	18.7
	FY07E	20.9	9.0	14.1

SHAREHOLDING PATTERN (%)

	DEC.05	SEP.05	DEC.04
Promoters	68.2	68.2	68.2
Domestic Institutions	2.9	2.5	2.3
FII's/FDIs	17.7	17.8	17.8
Others	11.3	11.5	11.8

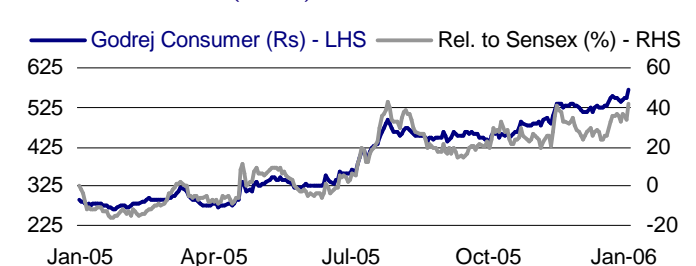
EPS: INQUIRE FORECAST VS CONSENSUS (RS)

	INQUIRE FORECAST	CONSENSUS FORECAST	VARIATION (%)
FY06	21.2	20.6	3.2
FY07	27.2	24.4	11.5

TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
569	630	10.6	Buy

STOCK PERFORMANCE (1 YEAR)



INCOME STATEMENT					
(Rs Million)					
Y/E MARCH	2004	2005	2006E	2007E	2008E
Net Sales	4,916	5,627	6,596	7,456	8,386
Change (%)	3.3	14.5	17.2	13.0	12.5
Total Expenditure	-4,043	-4,622	-5,286	-5,918	-6,589
EBITDA	873	1,005	1,309	1,538	1,797
Change (%)	8.6	15.1	30.3	17.4	16.9
Margin (%)	17.8	17.9	19.9	20.6	21.4
Depreciation	-94	-107	-113	-126	-140
Int. and Fin. Charges	-26	-31	-42	-25	-25
Other Income-rec.	13	39	110	110	110
PBT	766	906	1,264	1,497	1,742
Change (%)	9.3	18.3	39.6	18.4	16.4
Margin (%)	15.6	16.1	19.2	20.1	20.8
Tax	-88	-74	-104	-120	-139
Deferred Tax	-30	-3	-3	0	0
Tax Rate (%)	15.3	8.5	8.5	8.0	8.0
PAT	648	829	1,157	1,377	1,603
Change (%)	21.1	27.9	39.6	19.0	16.4
Margin (%)	13.2	14.7	17.5	18.5	19.1
Non-rec. (Exp.)/Income	0	35	0	0	0
Reported PAT	649	864	1,157	1,377	1,603

BALANCE SHEET					
Y/E MARCH	2004	2005	2006E	2007E	2008E
Share Capital	227	226	225	225	225
Reserves	196	272	322	436	636
Networth	424	498	547	661	861
Loans	242	61	172	227	209
Deferred Liability	76	79	79	79	79
Capital Employed	742	639	799	967	1,149
Gross Block	1,698	1,799	2,126	2,489	2,850
Less: Accum. Depn.	-690	-791	-904	-1,030	-1,170
Net Fixed Assets	1,009	1,008	1,222	1,459	1,680
Capital WIP	31	7	7	7	7
Investments	0	0	0	0	0
Currents Assets	847	1,031	1,081	1,146	1,009
Inventory	492	738	779	836	706
Account Receivables	132	52	61	68	61
Cash and Bank Balance	140	90	90	90	90
Loans and Advances	83	152	152	152	152
Curr. Liab. & Prov.	1,145	1,406	1,510	1,644	1,546
Account Payables	832	939	1,041	1,165	1,056
Other Liabilities	291	417	457	467	467
Provisions	22	50	12	12	23
Net Current Assets	-298	-375	-429	-498	-538
Net Assets	742	639	799	967	1,149

E: M OSt Estimates; Not consolidated for Keyline Brands Limited

RATIOS					
Y/E MARCH	2004	2005	2006E	2007E	2008E
Basic (Rs)					
EPS	11.4	14.7	20.6	24.5	28.5
Cash EPS	13.1	16.5	22.6	26.8	31.0
BV/Share	7.5	8.8	9.7	11.7	15.2
DPS	9.0	12.0	15.1	20.0	22.0
Payout (%)	79.1	81.9	73.3	81.5	77.1
Valuation (x)					
P/E	49.9	38.8	27.6	23.2	19.9
Cash P/E	43.6	34.4	25.2	21.3	18.3
EV/Sales	6.6	5.7	4.9	4.3	3.8
EV/EBITDA	37.2	32.0	24.5	20.9	17.8
P/BV	76.0	64.6	58.9	48.7	37.4
Dividend Yield	16	2.1	2.7	3.5	3.9
Return Ratios (%)					
RoE	153.1	166.3	211.6	208.4	186.2
RoCE	106.7	146.6	163.6	157.3	153.8
Working Capital Ratios					
Debtor (Days)	10	3	3	3	3
Asset Turnover (x)	4.7	5.5	5.4	5.1	5.0
Leverage Ratio					
Debt/Equity (x)	57.2	12.3	31.5	34.4	24.3

CASH FLOW STATEMENT					
Y/E March	2004	2005	2006E	2007E	2008E
OP/(Loss) before Tax	779	898	1,196	1,412	1,657
Int./Div. Received	13	39	110	110	110
Depreciation and Amort.	94	107	113	126	140
Interest Paid	-26	-31	-42	-25	-25
Direct Taxes Paid	-88	-74	-104	-120	-139
(Inc)/Dec in WC	129	27	54	69	40
CF from Operations	900	966	1,328	1,572	1,783
Extraordinary Items	0	35	0	0	0
(Inc)/Dec in FA	-239	-76	-327	-363	-361
(Pur.)/Sale of Investments	40	-269	0	0	0
CF from Investments	-199	-309	-327	-363	-361
Issue of Shares	23	48	-153	0	0
(Inc)/Dec in Debt	64	-181	111	55	-18
Dividend Paid	-513	-679	-849	-1,123	-1,235
Other Item	-207	179	-110	-141	-169
CF from Fin. Activity	-633	-633	-1,000	-1,209	-1,422
Inc/Dec of Cash	68	23	0	0	0
Add: Beginning Balance	71	140	90	90	90
Closing Balance	140	90	90	90	90



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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 |

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