

# Godrej Consumer Products

Rs297

RATING UNDER REVIEW

## RESULT NOTE

Mkt Cap: Rs91.7bn; US \$2bn

**Analyst:** Nikhil Vora (91-22-6622 2567; [nikhilvora@idfcsski.com](mailto:nikhilvora@idfcsski.com))  
 Bhushan Gajaria (91-22-6622 2562; [bhushangajaria@idfcsski.com](mailto:bhushangajaria@idfcsski.com))  
 Shweta Dewan (91-22-6622 2577; [shweta.dewan@idfcsski.com](mailto:shweta.dewan@idfcsski.com))

**Result:** Q4FY10

**Comment:** Domestic business under pressure!

## Key valuation metrics

Year	Net Sales	yoy chg (%)	Net profit	EPS (Rs)	yoy chg (%)	EV / E (x)	PER (x)
FY09	14,000	26.7	1,734	6.7	(4.7)	35.9	44.2
FY10	20,437	46.0	3,392	11.0	63.3	20.4	27.0
FY11E	23551	15.2	3,770	12.2	11.2	17.6	24.3
FY12E	27106	15.1	4,428	14.3	17.5	14.5	20.7

*Includes numbers from 49% stake in Godrej Sara Lee JV; does not include revenues from Tura and Megasari*

## Highlights of FY10 results and Management interaction post results

- For the quarter Q4FY10, lower than our estimates, GCPL has reported consolidated revenue growth of 48.6% at Rs5.09bn, EBITDA growth of 62.6% at Rs1.07bn and PAT growth of 56.3% at Rs917m (estimates of Rs932m)
- This includes Rs1.46bn of revenues for its 49% stake in the Godrej Sara Lee JV and PAT of R228m.
- GCPL's continuing operations reported revenues growth of 5.7% at Rs3.6bn and PAT at Rs689m. While GCPL's standalone domestic operations grew by just 2.1% while international business grew by 21% in rupee terms.
- Food inflation has taken its toll on soaps as well as hair color categories – subdued growth albeit market share gains. Soaps business is expected to have reported a ~3% decline yoy with no price hike taken during the year and volumes down during the quarter. However, GCPL has gained 110bp of market share at 10.5% during the quarter, indicating pressure across the category. Hair colors business on the other hand has grown in low single digit.
- After 4 quarters of high growth, GCPL has felt the growth pressures and we believe that the pressure may continue as long as the food inflation concern.
- Consolidated margins during the quarter stood at 21.1% (not comparable to Q4FY09). However, margins have improved by 140bp on QoQ basis.
- Gross margins during the quarter stood at 55.5% (300bp higher QoQ), Staff Cost has dropped from Rs601m in Q3FY10 to Rs327m on a back of sharp dip in variable performance pay. GCPL has also brought down ASP spends by 20% QoQ. Other expenditures have risen sharply to Rs1.08bn as against Rs668m in Q3FY10 as GCPL has spent heavily on promotions
- Standalone business operation has reported EBITDA margin expansion of 471bp at 24.8% in Q4FY10 with gross margins improving sharply from 47.7% in Q4FY09 to 59.4% in Q4FY10. Substantial portion of savings in material cost is reinvested in ASP spends (up from Rs114.7m in Q4FY09 to Rs281.7m in Q4FY10)
- Employee cost was lower than expectations (down from Rs169.2m in Q4FY09 to Rs103.2m in Q4FY10).
- During the year, GCPL reported a consolidated revenue growth of Rs46% at Rs20.4bn, EBITDA at Rs4.09bn and PAT at Rs3.39bn.

IDFC - SSKI Securities Ltd.

Naman Chambers, C-32, G- Block, Bandra-Kurla Complex, Bandra (East), Mumbai 400 051 Tel: 91-22-6622 2600 Fax: 91-22-6622 2501

“For Private Circulation only” and “Important disclosures appear at the back of this report”

- ♦ This includes Rs4.07bn of revenues for its stake in Godrej Sara Lee JV and PAT of Rs639m (effective from from June 2009)
- ♦ During the year, GCPL's continuing operations reported revenues growth of 17% at Rs16.4bn and PAT at Rs2.75bn. GCPL's domestic operations grew by 16% while international business grew by 21% in rupee terms
- ♦ During the year, the international business reported revenue growth of 21% at Rs3.78bn and PAT growth of 81% at Rs332m. The Keyline Brands, Kinky business, Rapidol and GGME business grew by 9%, 40%, 42% and 45% respectively in rupee terms.
- ♦ Further to GCPL's 3x3 strategy of extending competitive positioning in Asia, Africa and Latin Americas in personal wash, hair care and insecticide segments, GCPL announced the acquisition of Tura in Nigeria. Tura, with expected annual sales of ~USD50m, manufactures and distributes a range of beauty products, including soaps, moisturizing lotions and skin-toning creams
- ♦ In April-2010, GCPL announced the acquisition of Megasari. Meagsari – a leading consumer company in Indonesia clocked in revenues of USD120m in the current year and estimate PAT margins of 11-12%. Megasari is the second largest player with 35% market share of Indonesia's household insecticides market (USD150m market growing at 20%+), leader in air care market with 45% market share (USD68m market growing at 45%) and enjoys 80% market share of USD21m wipes market (growing at 45%). Megasari also has 15% share of the breakfast cereals market. The deal value is estimated at USD250m-300m (20-22x earnings) and will be funded through debt
- ♦ GCPL has passed an enabling resolution to raise Rs30bn in order to fund inorganic growth (India and other emerging markets would be key focus areas). The remaining 51% stake in Godrej Sara Lee and the global pesticides business of Sara Lee appear as the potential acquisitions in the offing.

**Easing commodity costs, HUL losing market share at the mass segment and GCPL targeting the mass to mid mass segment of hair color category rather than taking on likes of L'Oreal in the premium segment, GCPL has made the most of the gains available in the domestic personal wash and hair color categories. Further, strong momentum in the acquired international operations and recent acquisition of 49% stake in Sara Lee, GCPL has been on a very high double digit growth path in the last 4 quarters. However, pressure points are building up incrementally for GCPL. With food inflation at near its all time high (touched 20% during the quarter), not only is the growth under pressure (consumer downtrading – more prominent amongst urban mass) but would also refrain GCPL from taking any price hikes to pass on the impact of increasing vegetable oil prices. Domestic business earnings would get impacted further by increasing effective tax rate (300bp). We thereby see near term pressure on standalone operations (7% downgrade in FY11E estimates). On the other hand, while we like GCPL's aggression on inorganic growth and newly emerged 3x3 strategy, GCPL's ability to manage these varied acquisition in the international market will hold the key for future scalability. As we seek more details on the recent acquisitions (25% of consolidated revenues) and work out GCPL's numbers post this, we put our rating on GCPL under review.**

#### Quarterly results

(Rs Mn)	Q4FY09	FY09	Q1FY10	Q2FY10	Q3FY10	Q4FY10	FY10	FY11E	FY12E
<b>Net Sales</b>	<b>3,427</b>	<b>14,000</b>	<b>4,396</b>	<b>5,765</b>	<b>5,184</b>	<b>5,092</b>	<b>20,437</b>	<b>23,551</b>	<b>27,106</b>
% yoy (%)	25.4	26.7	20.6	65.6	53.3	48.6	46.0	15.2	15.1
<b>EBITDA</b>	<b>661</b>	<b>2,083</b>	<b>872</b>	<b>1,129</b>	<b>1,021</b>	<b>1,075</b>	<b>4,098</b>	<b>4,638</b>	<b>5,458</b>
EBITDA (%)	19.3	14.9	19.8	19.6	19.7	21.1	20.1	19.7	20.1
Net interest	-60	(159)	38	26	20	27	(280)	(325)	(400)
Depreciation	40	192	52	68	56	61	235	271	306
Other Income	7	51	94	129	103	122	51	141	163
Profit before Tax	688	2,100	876	1,164	1,048	1,110	4,195	4,833	5,714
Tax	101	366	179	234	198	192	803	1,063	1,286
<b>Profit After Tax</b>	<b>587</b>	<b>1,734</b>	<b>697</b>	<b>930</b>	<b>850</b>	<b>918</b>	<b>3,392</b>	<b>3,770</b>	<b>4,428</b>
% yoy (%)	43.8	8.8	78.1	167.8	112.3	56.3	95.5	11.2	17.5

IDFC - SSKI INDIA

Analyst	Sector/Industry/Coverage	E-mail	Tel. +91-22-6622 2600
Pathik Gandotra	Head of Research; Financials, Strategy	pathik@idfcsski.com	91-22-662 22525
Shirish Rane	Construction, Power, Cement	shirish@idfcsski.com	91-22-662 22575
Nikhil Vora	FMCG, Media, Mid Caps, Education, Exchanges	nikhilvora@idfcsski.com	91-22-662 22567
Ramnath S	Automobiles, Auto ancillaries, Real Estate, Oil & Gas	ramnaths@idfcsski.com	91-22-662 22570
Nitin Agarwal	Pharmaceuticals	nitinagarwal@idfcsski.com	91-22-662 22568
Chirag Shah	Metals & Mining, Telecom, Pipes, Textiles	chirag@idfcsski.com	91-22-662 22564
Bhoomika Nair	Logistics, Engineering	bhoomika@idfcsski.com	91-22-662 22561
Hitesh Shah, CFA	IT Services	hitesh.shah@idfcsski.com	91-22-662 22565
Bhushan Gajaria	Retailing, FMCG, Media, Mid Caps	bhushangajaria@idfcsski.com	91-22-662 22562
Salil Desai	Construction, Power, Cement	salil@idfcsski.com	91-22-662 22573
Ashish Shah	Construction, Power, Cement	ashishshah@idfcsski.com	91-22-662 22560
Probal Sen	Oil & Gas	probal@idfcsski.com	91-22-662 22569
Chinmaya Garg	Financials	chinmaya@idfcsski.com	91-22-662 22563
Aniket Mhatre	Automobiles, Auto ancillaries	aniket@idfcsski.com	91-22-662 22559
Abhishek Gupta	Telecom	abhishek.gupta@idfcsski.com	91-22-662 22661
Ritesh Shah	Pharmaceuticals, IT Services	riteshshah@idfcsski.com	91-22-662 22571
Saumil Mehta	Metals, Pipes	saumil.mehta@idfcsski.com	91-22-662 22578
Vineet Chandak	Real Estate	vineet.chandak@idfcsski.com	91-22-662 22579
Kavita Kejriwal	Strategy, Financials	kavita.kejriwal@idfcsski.com	91-22-662 22558
Swati Nangalia	Mid Caps, Media, Exchanges	swati@idfcsski.com	91-22-662 22576
Sameer Bhise	Strategy, Financials	sameer@idfcsski.com	91-22-662 22574
Nikhil Salvi	Construction, Power, Cement	nikhil.salvi@idfcsski.com	91-22-662 22566
Shweta Dewan	Mid Caps, Education, FMCG	shweta.dewan@idfcsski.com	91-22-662 22577
Dharmendra Sahu	Database Analyst	dharmendra@idfcsski.com	91-22-662 22580
Rupesh Sonawale	Database Analyst	rupesh@idfcsski.com	91-22-662 22572
Dharmesh Bhatt	Technical Analyst	dharmesh@idfcsski.com	91-22-662 22534
Equity Sales/Dealing	Designation	E-mail	Tel. +91-22-6622 2500
Naishadh Paleja	MD, CEO	naishadh@idfcsski.com	91-22-6622 2522
Pareesh Shah	MD, Dealing	pareesh@idfcsski.com	91-22-6622 2508
Vishal Purohit	MD, Sales	vishal@idfcsski.com	91-22-6622 2533
Nikhil Gholani	MD, Sales	nikhil@idfcsski.com	91-22-6622 2529
Sanjay Panicker	Director, Sales	sanjay@idfcsski.com	91-22-6622 2530
V Navin Roy	Director, Sales	navin@idfcsski.com	91-22-6622 2528
Nirbhay Singh	SVP, Sales	nirbhay.singh@idfcsski.com	91-22-6622 2595
Suchit Sehgal	AVP, Sales	suchit@idfcsski.com	91-22-6622 2532
Pawan Sharma	MD, Derivatives	pawan.sharma@idfcsski.com	91-22-6622 2539
Jignesh Shah	AVP, Derivatives	jignesh@idfcsski.com	91-22-6622 2536
Sunil Pandit	Director, Sales trading	sunil@idfcsski.com	91-22-6622 2524
Mukesh Chaturvedi	SVP, Sales trading	mukesh@idfcsski.com	91-22-6622 2512
Viren Sompura	VP, Sales trading	viren@idfcsski.com	91-22-6622 2527
Rajashekhar Hiremath	VP, Sales trading	rajashekhar@idfcsski.com	91-22-6622 2516

**Disclaimer**

This document has been prepared by IDFC-SSKI Securities Ltd (IDFC-SSKI). IDFC-SSKI and its subsidiaries and associated companies are a full-service, integrated investment banking, investment management and brokerage group. Our research analysts and sales persons provide important input into our investment banking activities.

This document does not constitute an offer or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction.

The information contained herein is from publicly available data or other sources believed to be reliable. While we would endeavor to update the information herein on reasonable basis, IDFC-SSKI, its subsidiaries and associated companies, their directors and employees ("IDFC-SSKI and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent IDFC-SSKI and affiliates from doing so. We do not represent that information contained herein is accurate or complete and it should not be relied upon as such. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. 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). The investment discussed or views expressed may not be suitable for all investors.

Affiliates of IDFC-SSKI may have issued other reports that are inconsistent with and reach different conclusions from, the information presented in this report.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject IDFC-SSKI and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to a certain category of investors. Persons in whose possession this document may come are required to inform themselves of, and to observe, such applicable restrictions.

Reports based on technical analysis centers on studying charts of a stock's price movement and trading volume, as opposed to focusing on a company's fundamentals and, as such, may not match with a report on a company's fundamentals.

IDFC-SSKI and its affiliates may have used the information set forth herein before publication and may have positions in, may from time to time purchase or sell, or may be materially interested in any of the securities mentioned or related securities. IDFC-SSKI and its affiliates may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall IDFC-SSKI, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind. Any comments or statements made herein are those of the analyst and do not necessarily reflect those of IDFC-SSKI and its affiliates.

This document is subject to changes without prior notice and is intended only for the person or entity to which it is addressed and may contain confidential and/or privileged material and is not for any type of circulation. Any review, retransmission, or any other use is prohibited.

Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. IDFC-SSKI will not treat recipients as customers by virtue of their receiving this report.

**Explanation of Ratings:**

1. Outperformer: More than 5% to Index
2. Neutral: Within 0-5% to Index
3. Underperformer: Less than 5% to Index

**Disclosure of interest:**

1. IDFC - SSKI and its affiliates may have received compensation from the company covered herein in the past twelve months for issue management, capital structure, mergers & acquisitions, buyback of shares and other corporate advisory services.
2. Affiliates of IDFC - SSKI may have received a mandate from the subject company.
3. IDFC - SSKI and its affiliates may hold paid up capital of the subject company.
4. IDFC - SSKI and its affiliates, their directors and employees may from time to time have positions or options in the company and buy or sell the securities of the company(ies) mentioned herein.

Copyright in this document vests exclusively with IDFC-SSKI