

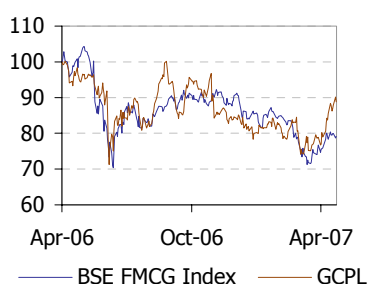
Godrej Consumer Products Ltd

Relative to sector: **Outperformer**

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Relative Performance



Source: Bloomberg, ENAM Research

Stock data

No. of shares : 226mn
Market cap : Rs 32.6bn
52 week high/low : Rs 197/ Rs 122
Avg. daily vol. (6mth) : 174,200 shares
Bloomberg code : GCPL IN
Reuters code : GOCP.BO

Shareholding (%) Mar-07 QoQ chg

Shareholder	Mar-07 (%)	QoQ chg
Promoters	67.8	(0.1)
FIIs	17.8	0.3
MFs / UTI	2.7	0.2
Banks / FIs	0.2	0.0
Others	11.5	(0.4)

GROWTH DISSAPPOINTS

Godrej Consumer Products Ltd. (GCPL) reported revenues of Rs 2.4bn (↑ 26.6%), EBIDTA of Rs 431mn (↑ 13%) and adj. net profit of Rs 308mn (↑ 2.3%) in Q4FY07. Sharp increase in palm oil prices, higher promotional overheads and lower than expected growth in the hair colour segment (~60% of standalone PBIT earnings) resulted in lower than expected earnings.

Q4FY07 highlights

- **Toilet Soaps:** volumes grew by 14% YoY on the back of a higher growth in the lower end segment vs. the popular range. This deterioration in the sales mix, combined with a rise in input costs lead to an 181bps decline in PBIT margins for Q4FY07. We believe that current growth is sustainable over the next 2 years and have forecasted a ~70bps expansion in PBIT margins for FY08 as the strengthening rupee could provide relief to the rising palm oil prices. With a 5-8% price increase affected in Q1FY08, we believe that the domestic growth and earnings momentum will sustain.
- **Hair colour:** category grew by 11% (domestic) due to the Re.1 price increase to Rs.9 effected in Dec '06. We believe that the interim sluggishness in volume off take does not reflect a structural slowdown in the category and have forecasted 13% CAGR over the next 2 years. PBIT margins for the personal care segment (incl. toiletries) have been estimated at 40% for FY08E.

Earnings downgrade, maintain outperformer

Despite our earnings downgrade of 8% for FY08, we expect a 15% CAGR in revenue and a 19% CAGR in PAT growth over the next two years. While there is a visible slowdown in hair-colour (the most profitable category) we do not believe this to be a structural downturn. We believe that the current valuations more than adequately factor in the growth and cost inflation concerns. At CMP of Rs 144 the stock trades at 19.4x FY08E and 16.4x FY09E earnings. We maintain sector **Outperformer** rating on the stock.

Financial summary (Consolidated)

Y/E Mar	Sales (Rs mn)	Adj. PAT (Rs mn)	Consensus EPS* (Rs)	EPS (Rs)	Change YoY (%)	P/E (x)	RoE (%)	RoCE (%)	EV/EBIDTA (x)	DPS (Rs)
2006	6,980	1,138	-	5.0	33	36.1	177.0	129.2	29.2	3.5
2007	9,532	1,393	-	6.2	23	23.9	131.4	75.5	19.2	3.7
2008E	11,111	1,675	7.9	7.4	20	19.4	100.8	64.8	15.9	4.5
2009E	12,574	1,982	9.3	8.8	18	16.4	83.9	72.4	13.6	5.5

Source: *Consensus broker estimates, Company, ENAM estimates

Results update

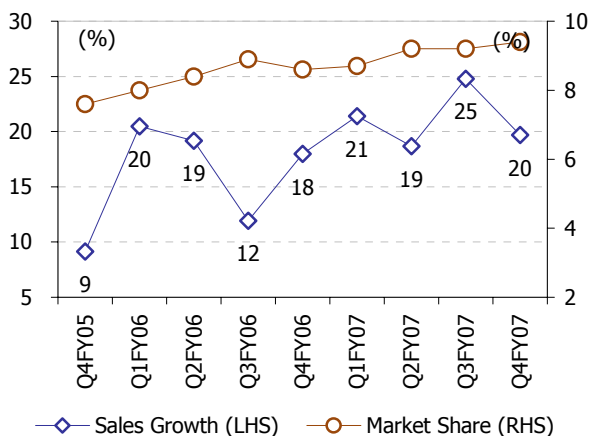
(Rs mn)	Quarter ended			12 months ended				
	Mar-07	Mar-06	% Chg	Dec-06	% Chg	Mar-08E	Mar-07	% Chg
Net Sales	2,424	1,915	26.6	2,380	1.8	11,111	9,532	16.6
EBIDTA	431	381	13.0	515	(16.4)	2,100	1,797	16.9
Other income	6	7	(4.5)	17	(63.2)	70	28	150.0
PBIDT	437	388	12.7	532	(17.9)	2,170	1,825	18.9
Depreciation	45	31	43.8	36	25.3	154	142	9.0
Interest	20	21	(6.5)	33	(39.4)	102	96	5.9
PBT	372	335	11.0	464	(19.7)	1,914	1,587	20.6
Tax	64	34	87.2	68	(5.4)	239	194	23.2
Adjusted PAT	308	301	2.3	396	(22.2)	1,675	1,393	20.3
Extra ordinary income/ (exp.)	86	5	1,614	2	-	-	48	-
Reported PAT	394	306	28.7	398	(1.0)	1,675	1,440	16.3
No. of shares (mn)	226	226	-	226	-	226	226	-
EBIDTA margins (%)	17.8	19.9	-	21.6	-	18.9	18.8	-
PBIDT margins (%)	18.0	20.3	-	22.4	-	19.5	19.1	-
EPS - annualized (Rs.)	5.5	5.3	2.4	7.0	(22.2)	7.4	6.2	20.4

Source: Company, ENAM Research

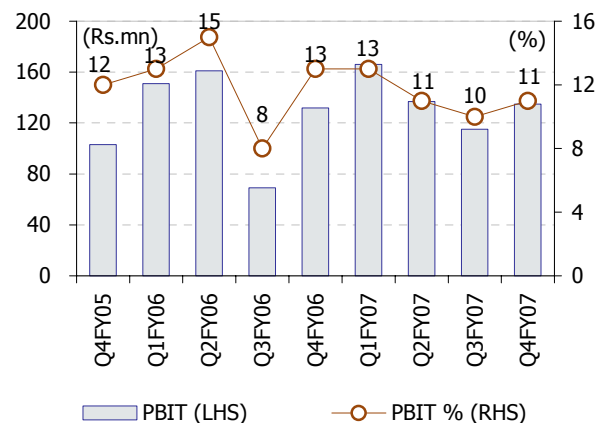
Toilet Soaps – Cost pressures, deteriorating sales mix

- GCPL's soap brands grew by 20% YoY in value terms increasing market share from last year to 9.4% (↑ 20bps). Growth in volumes has been higher in the low-end segment (Godrej no.1) whereas growth in the popular segment (Cinthol & Fairglow) has been modest for the quarter.
- Rise in global palm oil prices and a deteriorating sales mix, resulted in a 181bps compression in PBIT margin for Q4FY07. GCPL affected a 5-8% selective price increase in April 2007 and in our opinion this is sufficient to offset the 15% rise in palm oil prices.
- Outlook: We have forecasted a 14% CAGR for the next 2 years. A strengthening rupee, against a relatively lower rise in palm oil prices is expected to moderate margins at ~12% in FY08E.

Growth & Market share trend



PBIT & margin trend

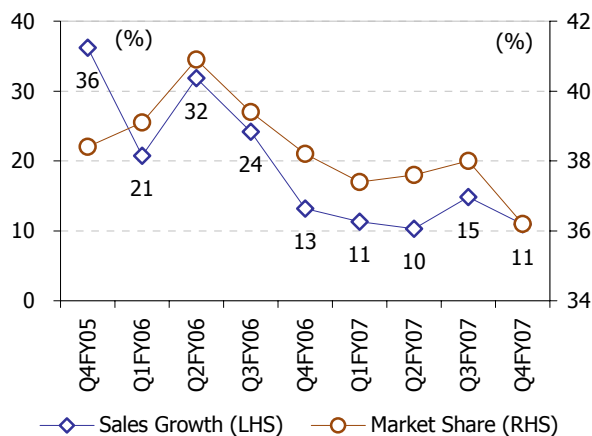


Source: Company

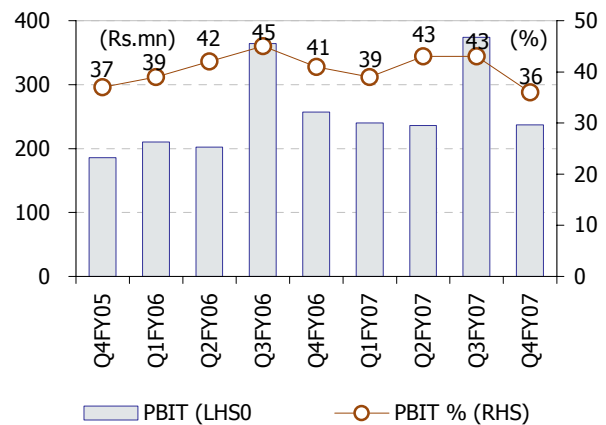
Hair Colour – Slowdown, not structural

- The domestic hair-colour segment growth of 11% for Q4FY07 and 12% in FY07 is less than encouraging. The management claims that market growth estimates of ~21% (much lower than the earlier estimates of ~35% due to rebasing of data effected by AC Nielson) are sustainable.
- Value growth of 11% in Q4FY07 post the recent price increase by Rs 1 to Rs 9 in Dec 06, implies that volume growth for the quarter was virtually nil. We believe that the interim sluggishness in volume off-take does not reflect a structural slowdown in the category. A real implied growth of 5-7%, similar to that of a highly penetrated category such as soaps, is achievable in the long term. We have lowered our segmental growth forecast to a 13% CAGR over the next 2 years. PBIT margin for the personal care segment (including toiletries) has been estimated at 40% for FY08E.

Hair Colour: Sales & Market share trend



Personal care: PBIT & margin trend



Source: Company Note: Hair Colour & Personal care pertain to standalone domestic financials

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