

Godrej Consumer Products

| | |
|--------------------|--------------|
| STOCK INFO. | BLOOMBERG |
| BSE Sensex: 11,939 | GCPL IN |
| | REUTERS CODE |
| S&P CNX: 3,556 | GOCP.BO |

26 April 2006

Buy

Previous Recommendation: Buy

Rs733

| | |
|-----------------------|---------|
| Equity Shares (m) | 56.6 |
| 52-Week Range | 799/268 |
| 1,6,12 Rel. Perf. (%) | 4/9/73 |
| M.Cap. (Rs b) | 41.5 |
| M.Cap. (US\$ b) | 0.9 |

| 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 |
| 03/06A | 6,573 | 1,207 | 21.5 | 46.7 | 34.1 | 68.9 | 200.7 | 180.9 | 6.2 | 29.8 |
| 03/07E | 7,628 | 1,479 | 26.3 | 22.6 | 27.8 | 36.2 | 129.3 | 130.6 | 5.3 | 22.8 |
| 03/08E | 8,865 | 1,862 | 33.2 | 25.9 | 22.1 | 25.6 | 115.2 | 119.2 | 4.5 | 18.2 |

Godrej Consumer Products (GCPL) reported a growth of 18.5% YoY in its standalone revenues for 4QFY06. EBITDA margins expanded 460bp to 21.7%, boosted by strong topline growth and better price realization in hair color. PAT growth of 17.3% YoY was, however, disappointing. Lower other income and higher interest expense adversely impacted the company's bottomline.

Keyline Brands clocked revenues of ₹3.4m for 4QFY06 and ₹5.4m for the five months for which the company has been consolidated. GCPL has announced plans to launch some of its own products in other countries having Indian diaspora, using Keyline's distribution. The company will also manufacture some of Keyline products in India. These initiatives will boost both topline and bottomline in the coming years.

We maintain our standalone EPS estimates for FY07 and FY08 at ₹26.3 and ₹33.2, respectively. Consolidating for the Keyline acquisition, we believe that the company should earn an EPS of ₹28.9 for FY07 and ₹36.2 for FY08. The stock is trading at 25.3x FY07E and 20.2x FY08E consolidated earnings. GCPL has announced a stock split – each of its existing shares would be split into four shares of ₹1 each. We believe that this would increase liquidity in the market. We maintain **Buy**.

QUARTERLY PERFORMANCE

(Rs Million)

| Y/E MARCH | FY05 | | | | FY06 | | | | FY05 | FY06 |
|------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | 3Q | 4Q | | |
| Net Sales | 1,366 | 1,342 | 1,535 | 1,385 | 1,677 | 1,571 | 1,691 | 1,641 | 5,627 | 6,573 |
| YoY Change (%) | 14.8 | 9.7 | 19.7 | 13.6 | 22.8 | 17.1 | 10.2 | 18.5 | 14.5 | 16.8 |
| Total Exp | 1,142 | 1,126 | 1,211 | 1,148 | 1,346 | 1,300 | 1,287 | 1,285 | 4,622 | 5,199 |
| EBITDA | 223 | 217 | 324 | 237 | 331 | 271 | 404 | 356 | 1,005 | 1,374 |
| Margins (%) | 16.4 | 16.1 | 21.1 | 17.1 | 19.7 | 17.2 | 23.9 | 21.7 | 17.9 | 20.9 |
| Depreciation | -25 | -26 | -28 | -27 | -27 | -27 | -27 | -26 | -107 | -108 |
| Interest | -7 | -8 | -9 | -1 | -9 | -9 | -11 | -12 | -25 | -40 |
| Other Income | 1 | 10 | 3 | 55 | 3 | 60 | 29 | 7 | 32 | 87 |
| PBT | 192 | 192 | 290 | 264 | 298 | 295 | 395 | 325 | 906 | 1,313 |
| Tax | -19 | -18 | -30 | -11 | -27 | -17 | -34 | -28 | -77 | -106 |
| Rate (%) | 9.7 | 9.2 | 10.3 | 4.1 | 9.0 | 8.0 | 8.5 | 8.7 | 8.5 | 8.1 |
| PAT | 173 | 174 | 260 | 253 | 271 | 278 | 361 | 297 | 829 | 1,207 |
| YoY Change (%) | 25.3 | 25.8 | 45.0 | 31.6 | 56.6 | 59.6 | 38.8 | 17.3 | 27.9 | 45.6 |
| Extraordinary Expenses | 0 | 0 | 0 | 35 | 0 | 0 | 0 | 5 | 0 | 5 |
| Reported PAT | 173 | 174 | 260 | 288 | 271 | 278 | 361 | 302 | 829 | 1,212 |

E: MOST Estimates: Standalone Numbers

Toilet soaps drive overall revenue growth

GCPL’s standalone revenue growth for 4QFY06 was in line with our expectations. Toilet soaps drove overall growth. Growth in the high margin, hair color category was, however, disappointing at 13% YoY – the lowest in the last five quarters. We believe that the high base of 4QFY05 was the primary reason for lower growth in 4QFY06. Toiletries grew 96% YoY, driven by strong growth in talcum powder and shaving creams.

SEGMENT-WISE PERFORMANCE (RS M)

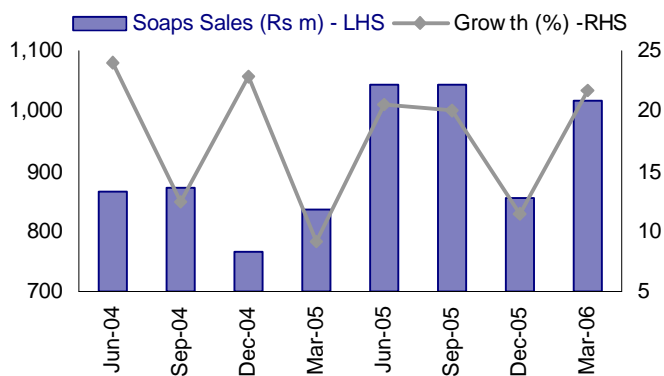
| | MAR-05 | MAR-06 | CHG(%) | FY05 | FY06 | CHG(%) |
|-----------------|--------|--------|--------|-------|-------|--------|
| Sales | | | | | | |
| Soaps | 878 | 1,016 | 16 | 3,655 | 4,132 | 13 |
| Personal Care | 507 | 625 | 23 | 1,971 | 2,441 | 24 |
| EBIT | | | | | | |
| Soaps | 103 | 132 | 28 | 368 | 513 | 39 |
| Personal Care | 186 | 257 | 38 | 752 | 1,033 | 37 |
| EBIT (%) | | | | | | |
| Soaps | 11.7 | 12.9 | | 10.1 | 12.4 | |
| Personal Care | 36.8 | 41.1 | | 38.2 | 42.3 | |

Source: Company/ Motilal Oswal Securities

Market share in toilet soaps maintained

GCPL’s own brands in toilet soaps reported YoY growth of 18% (in terms of value) and the company maintained its market share at 9.4%. GCPL has been focusing on improving its supply chain and reducing inventory with distributors in 9MFY06. We believe that this process is over and the current growth reflects the company’s actual retail offtake.

TOILET SOAPS: SALES GROWTH TREND



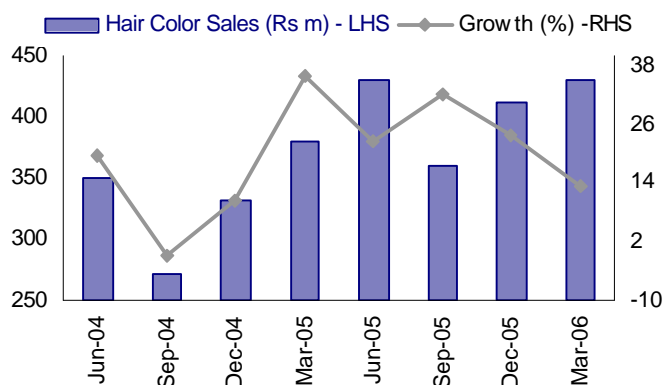
Source: Company/ Motilal Oswal Securities

GCPL’s toilet soap offtake was in line with industry offtake for the quarter, which enabled it to maintain its market share at current levels. PBIT margins for soaps also expanded 120bp YoY, driven by strong volume growth and stable vegetable oil prices. *Godrej No.1* continues to be the largest-selling toilet soap brand in the company’s portfolio. It has introduced India's first age control soap brand *Evita*, positioned at the mid priced segment. Success of this product can substantially boost growth rate of this SBU.

Hair color growth disappoints

Hair color revenues grew 13% YoY during 4QFY06. The company’s market share in the category slipped to 39.2%. Industry offtake growth at 22% was higher than the company’s 13% offtake growth. We believe that the higher base of 4QFY05 partly explains the disappointing growth reported by the company during the quarter. Operating margins for the personal care category have expanded, primarily due to higher realization in hair colors. The company had hiked prices of its hair dye sachets in 1QFY06. Looking at the buoyant consumer demand, we do not rule out price hike in powder hair dyes

HAIR COLOR: SALES GROWTH TREND



Source: Company/ Motilal Oswal Securities

Toiletries post robust growth

Toiletries reported revenue growth of 96% YoY for 4QFY06, driven by strong growth in talcum powder, shaving creams and baby care. Shaving cream sales were buoyed by the deluxe range of shaving creams. Further, the ‘buy one, get one free’ offer for talcum powder and *Snuggly*

offer at Rs10 per diaper attracted strong growth. Introduction of *Godrej No.1* talc in sandal and jasmine fragrances also attracted good demand. GCPL has planned to launch *Erasmic* brand of mens grooming products from keylines' stable, positioned in the premium segment. Success of this brand in high growth male grooming products can significantly increase growth rates in the toiletries division.

Valuation and view

We maintain our standalone EPS estimates for FY07 and FY08 at Rs26.3 and Rs33.2, respectively. Consolidating for the Keyline acquisition, we believe that the company should earn an EPS of Rs28.9 for FY07 and Rs36.2 for FY08. The stock is trading at 25.3x FY07E and 20.2x FY08E consolidated earnings. We maintain **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 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 second largest player in the soaps market with a market share of 9.4%.

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

- ☞ Competition in Hair Dye/Color segment may erode market share.
- ☞ Aggressive competition in the soap segments and high palm oil prices can lead to slow down in margin expansion.

Recent developments

- ☞ Acquired 100% ownership interest in Keyline Brands Limited, UK.
- ☞ Launched the first anti aging soap in India 'Evita'.

Valuation and view

- ☞ We have a consolidated EPS forecasts of Rs28.9, Rs36.2 for FY07 and FY08 respectively.
- ☞ The stock is trading at 25.3x, 20.2x FY07E and FY08E EPS respectively. We maintain **Buy**.

Sector view

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

COMPARATIVE VALUATIONS

| | | GCPL | DABUR | MARICO |
|---------------|-------|------|-------|--------|
| P/E (x) | FY07E | 27.8 | 25.8 | 23.0 |
| | FY08E | 22.1 | 21.4 | 19.3 |
| P/BV (x) | FY07E | 36.2 | 12.7 | 9.1 |
| | FY08E | 25.6 | 10.0 | 7.1 |
| EV/Sales (x) | FY07E | 5.3 | 3.2 | 2.3 |
| | FY08E | 4.5 | 2.7 | 2.0 |
| EV/EBITDA (x) | FY07E | 22.8 | 20.2 | 15.8 |
| | FY08E | 18.2 | 17.0 | 13.1 |

SHAREHOLDING PATTERN (%)

| | MAR.06 | DEC.05 | MAR.05 |
|-----------------------|--------|--------|--------|
| Promoters | 68.2 | 68.2 | 68.2 |
| Domestic Institutions | 3.0 | 2.9 | 2.2 |
| FII's/FDIs | 17.7 | 17.7 | 18.2 |
| Others | 11.1 | 11.2 | 11.4 |

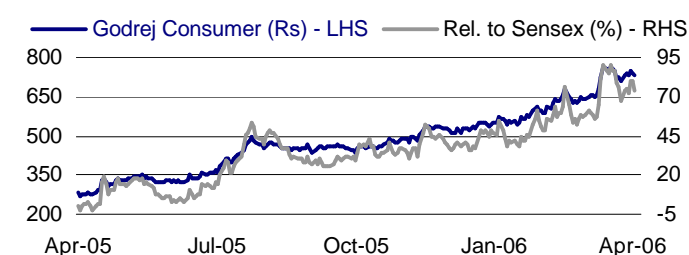
EPS: MOST FORECAST VS CONSENSUS (RS)

| | MOST FORECAST | CONSENSUS FORECAST | VARIATION (%) |
|------|---------------|--------------------|---------------|
| FY07 | 26.3 | 24.8 | 6.2 |
| FY08 | 33.2 | 30.0 | 10.6 |

TARGET PRICE AND RECOMMENDATION

| CURRENT PRICE (RS) | TARGET PRICE (RS) | UPSIDE (%) | RECO. |
|--------------------|-------------------|------------|-------|
| 733 | 795 | 8.5 | Buy |

STOCK PERFORMANCE (1 YEAR)



| INCOME STATEMENT | | | | | |
|------------------------|--------------|--------------|--------------|--------------|--------------|
| (Rs Million) | | | | | |
| Y/E MARCH | 2004 | 2005 | 2006 | 2007E | 2008E |
| Net Sales | 4,916 | 5,627 | 6,573 | 7,628 | 8,865 |
| Change (%) | 3.3 | 14.5 | 16.8 | 16.0 | 16.2 |
| Total Expenditure | -4,043 | -4,622 | -5,199 | -5,847 | -6,654 |
| EBITDA | 873 | 1,005 | 1,374 | 1,781 | 2,212 |
| Change (%) | 8.6 | 15.1 | 36.8 | 29.6 | 24.2 |
| Margin (%) | 17.8 | 17.9 | 20.9 | 23.4 | 25.0 |
| Depreciation | -94 | -107 | -108 | -130 | -154 |
| Int. and Fin. Charges | -26 | -31 | -40 | -35 | -35 |
| Other Income-rec. | 13 | 39 | 87 | 46 | 69 |
| PBT | 766 | 906 | 1,313 | 1,662 | 2,092 |
| Change (%) | 9.3 | 13.3 | 44.9 | 26.6 | 25.9 |
| Margin (%) | 15.6 | 16.1 | 20.0 | 21.8 | 23.6 |
| Tax | -88 | -74 | -119 | -174 | -219 |
| Deferred Tax | -30 | -3 | 13 | -9 | -12 |
| Tax Rate (%) | 15.3 | 8.5 | 8.1 | 11.0 | 11.0 |
| PAT | 648 | 829 | 1,207 | 1,479 | 1,862 |
| Change (%) | 21.1 | 27.9 | 45.6 | 22.6 | 25.9 |
| Margin (%) | 13.2 | 14.7 | 18.4 | 19.4 | 21.0 |
| Non-rec. (Exp.)/Income | 0 | 35 | 5 | 0 | 0 |
| Reported PAT | 649 | 864 | 1,212 | 1,479 | 1,862 |

| BALANCE SHEET | | | | | |
|--------------------------------|--------------|--------------|--------------|--------------|--------------|
| (Rs Million) | | | | | |
| Y/E MARCH | 2004 | 2005 | 2006 | 2007E | 2008E |
| Share Capital | 227 | 226 | 225 | 225 | 225 |
| Reserves | 196 | 272 | 377 | 920 | 1,393 |
| Networth | 424 | 498 | 602 | 1,145 | 1,617 |
| Loans | 242 | 61 | 61 | 61 | 61 |
| Deferred Liability | 76 | 79 | 85 | 94 | 106 |
| Capital Employed | 742 | 639 | 748 | 1,300 | 1,784 |
| Gross Block | 1,698 | 1,799 | 1,940 | 2,385 | 2,740 |
| Less: Accum. Depn. | -690 | -791 | -899 | -1,029 | -1,183 |
| Net Fixed Assets | 1,009 | 1,008 | 1,041 | 1,356 | 1,557 |
| Capital WIP | 31 | 7 | 20 | 20 | 20 |
| Investments | 0 | 0 | 155 | 466 | 852 |
| Currents Assets | 847 | 1,031 | 1,079 | 1,221 | 1,375 |
| Inventory | 492 | 738 | 692 | 803 | 909 |
| Account Receivables | 132 | 52 | 128 | 134 | 152 |
| Cash and Bank Balance | 140 | 90 | 99 | 114 | 133 |
| Loans and Advances | 83 | 152 | 160 | 170 | 180 |
| Curr. Liab. & Prov. | 1,145 | 1,406 | 1,547 | 1,762 | 2,020 |
| Account Payables | 832 | 939 | 1,012 | 1,123 | 1,277 |
| Other Liabilities | 291 | 417 | 149 | 166 | 185 |
| Provisions | 22 | 50 | 386 | 473 | 558 |
| Net Current Assets | -298 | -375 | -468 | -541 | -645 |
| Net Assets | 742 | 639 | 748 | 1,301 | 1,784 |

E: M O S t Estimates

| RATIOS | | | | | |
|-------------------------------|-------------|-------------|-------------|-------------|-------------|
| Y/E MARCH | 2004 | 2005 | 2006 | 2007E | 2008E |
| Basic (Rs) | | | | | |
| EPS | 11.4 | 14.7 | 21.5 | 26.3 | 33.2 |
| Cash EPS | 13.1 | 16.5 | 23.4 | 28.7 | 35.9 |
| BV/Share | 7.5 | 8.8 | 10.6 | 20.2 | 28.6 |
| DPS | 9.0 | 12.0 | 15.1 | 18.0 | 22.0 |
| Payout (%) | 79.1 | 81.9 | 70.3 | 68.3 | 66.3 |
| Valuation (x) | | | | | |
| P/E | | 50.0 | 34.1 | 27.8 | 22.1 |
| Cash P/E | | 44.3 | 31.3 | 25.6 | 20.4 |
| EV/Sales | | 7.4 | 6.2 | 5.3 | 4.5 |
| EV/EBITDA | | 412 | 29.8 | 22.8 | 18.2 |
| P/BV | | 83.2 | 68.9 | 36.2 | 25.6 |
| Dividend Yield | | 16 | 2.1 | 2.5 | 3.0 |
| Return Ratios (%) | | | | | |
| RoE | 153.1 | 166.3 | 200.7 | 129.3 | 115.2 |
| RoCE | 106.7 | 146.6 | 180.9 | 130.6 | 119.2 |
| Working Capital Ratios | | | | | |
| Debtor (Days) | 10 | 3 | 7 | 6 | 6 |
| Asset Turnover (x) | 4.7 | 5.5 | 6.2 | 5.5 | 5.6 |
| Leverage Ratio | | | | | |
| Debt/Equity (x) | 57.2 | 12.3 | 10.2 | 5.4 | 3.8 |

| CASH FLOW STATEMENT | | | | | |
|------------------------------|-------------|-------------|---------------|---------------|---------------|
| (Rs Million) | | | | | |
| Y/E March | 2004 | 2005 | 2006 | 2007E | 2008E |
| OP/(Loss) before Tax | 779 | 898 | 1,267 | 1,651 | 2,058 |
| Int./Div. Received | 13 | 39 | 87 | 46 | 69 |
| Depreciation and Amort. | 94 | 107 | 108 | 130 | 154 |
| Interest Paid | -26 | -31 | -40 | -35 | -35 |
| Direct Taxes Paid | -88 | -74 | -119 | -174 | -219 |
| (Inc)/Dec in WC | 129 | 27 | 102 | 89 | 122 |
| CF from Operations | 900 | 966 | 1,404 | 1,707 | 2,150 |
| Extraordinary Items | 0 | 35 | 5 | 0 | 0 |
| (Inc)/Dec in FA | -239 | -76 | -155 | -445 | -355 |
| (Pur.)/Sale of Investments | 40 | -269 | -155 | -310 | -386 |
| CF from Investments | -199 | -309 | -305 | -755 | -741 |
| Issue of Shares | 23 | 48 | -153 | 201 | 0 |
| (Inc)/Dec in Debt | 64 | -181 | 0 | 0 | 0 |
| Dividend Paid | -513 | -679 | -849 | -1,011 | -1,235 |
| Other Item | -207 | 179 | -295 | -436 | -512 |
| CF from Fin. Activity | -633 | -633 | -1,296 | -1,246 | -1,748 |
| Inc/Dec of Cash | 68 | 23 | -197 | -294 | -339 |
| Add: Beginning Balance | 71 | 140 | 90 | 99 | 114 |
| Closing Balance | 140 | 90 | 99 | 114 | 133 |



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Godrej Consumer Products

- | | |
|--|----|
| 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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