

Godrej Consumer Products

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Shareholding (%)

Promoters	67.9
FII's	17.5
MFs	2.6
Others	12.0

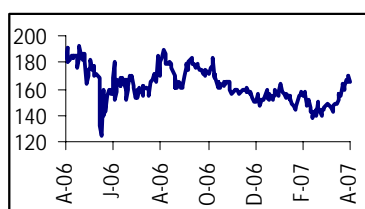
Share price performance

52-week high/low (Rs) 196/225

	-1m	-3m	-12m
Abs (%)	14.2	1.3	-13.4
Rel* (%)	6.2	0.8	-30.6

*to Nifty

Stock chart



Hair colour growth disappoints

Godrej Consumer's numbers were below our expectations. While net sales grew 26.6% to Rs2,424.2mn in Q4FY07 compared to our expectation of Rs2,322mn, net profits (excluding extra-ordinary items and tax write back) grew by 2.3% to Rs307.9mn. Growth in profits was restricted mainly due to fall in soap and personal care margins. For FY07, net sales grew by 36.2% to Rs9.53bn on the back of inorganic growth and excellent growth of 18.2% in soap revenue. Net profit (excluding extra-ordinary items) grew by 11.1% to Rs1.34bn.

Considering a slower growth rate in hair colour and higher raw material pressure, we are revising our EPS estimates downward by 6.4% and 7.2% for FY08E and FY09E respectively. However, we still continue to reiterate 'Buy' on the stock considering robust growth in soaps division and international business. We expect GCPL's revenue and PAT to grow at 16.8% and 23.2% CAGR respectively through FY07-09E. The stock is trading at a P/E multiple of 18.4x and 14.9x FY08E and FY09E earnings. Considering the revision in estimates, we have reduced our price target from Rs191 to Rs179.

Key highlights

- ▲ Revenue from the soap division grew 19.3% in Q4FY07 to Rs1.21bn on YOY basis and by 18.2% in FY07 to Rs4.88bn. While *Godrej No.1* grew ahead of the overall company growth, *Cinthal* and *Fairglow* too grew ahead of the soap industry growth of 7.7% in Q4FY07. EBIT margin of soap fell by 180bps to 11.1% in Q4FY07. The margin was impacted as vegetable oil prices are ruling higher by around 35% on YOY basis. Also GCPL's sub-popular brand (*Godrej No.1*) is growing ahead of other brands, putting pressure on the margin. GCPL had increased soap prices by 6-8% in October 2006 to counter rising input costs. GCPL has again increased prices by 5-8% with effect from April 2007.
- ▲ Hair colour was again a disappointment, as the division's revenue increased by 10.9% to Rs477.2mn, against an industry growth rate of 21.3%. The growth was largely driven by price increase in PHD by Rs1. While volume growth has remained stagnant, we don't believe that it is a structural slowdown in the industry and expect hair colours to grow at 15% over the next two years.

Buy

Rs144

April 25, 2007

Market cap

Rs bn 33

US\$ mn 793

Avg 3m daily volume

125,907

Avg 3m daily value

Rs mn 19

Shares outstanding (mn)

226

Reuters

GOCP.BO/GODREJCP.NS

Bloomberg

GCPL IN

Sensex

14,218

Nifty

4,167

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▲ Performance of the two acquired companies Keyline brands and Rapidol was a breath of fresh air. Keyline revenue grew by a staggering 80% in Q4FY07 to Rs493mn on the back of relaunch of key brands in the portfolio, while FY07 revenue stood at Rs1.67bn compared to our estimates of Rs1.4bn. PAT for Q4FY07 grew from Rs5mn to Rs49mn, while FY07 PAT was Rs139.4mn. Rapidol contributed Rs101mn and Rs276mn to Q4FY07 and FY07 (since September 2006) topline, and Rs7mn and Rs30mn to PAT. Rapidol and Keyline together accounted for 19.7% and 12.6% of the consolidated entity's revenue and PAT respectively.

Table 1. Keyline

Keyline	Q4FY07	Q4FY06	FY07
Sales	493	274	1674.8
PAT	49	5	139.4
NPM %	9.9%	1.8%	8.3%

Source: IISL research, company

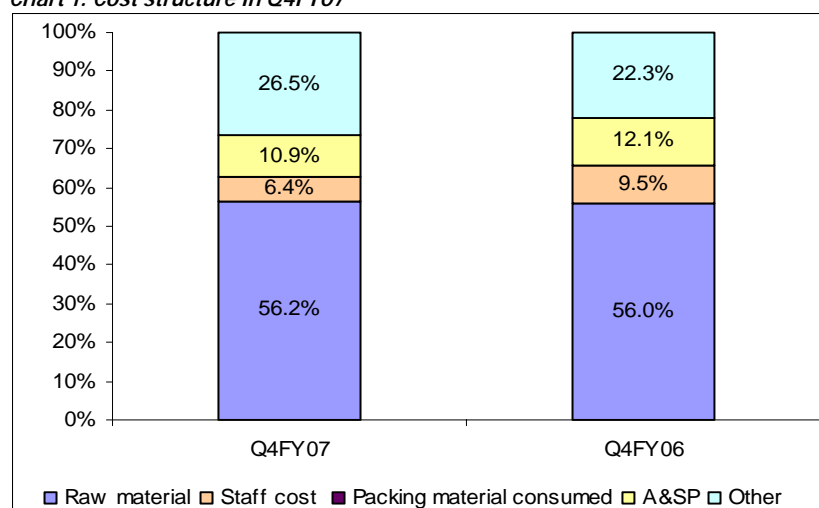
Table 2. Rapidol

Rapidol	Q4FY07	FY07
Sales	101	276
PAT	7	30
NPM %	6.9%	10.9%

Source: IISL research, company

▲ Other expenditure increased by 54.3% in Q4FY07 on account of higher promotion expenses. Advertising and publicity expenses fell from 9.7% of sales to 8.9% in the same period.

Chart 1: Cost structure in Q4FY07



Source: IISL research, company

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Table 3. Quarterly result table

	Q4FY07	Q4FY06	YOY %
Gross sales	2,485.2	1,992.1	24.8
Excise duty	61.0	76.9	(20.7)
Net sales from operations	2,424.2	1,915.2	26.6
Total Expenses	1,993.4	1,533.9	30.0
(Increase)/Decrease in stock	(264.8)	(130.5)	
Raw material Consumed	1,385.8	990.1	40.0
Employee cost	127.8	146.4	(12.7)
Advertisement & sales promotion	216.8	185.9	16.6
Other Expenses	527.8	342.0	54.3
EBITDA	430.8	381.3	13.0
Depreciation	45.0	31.3	43.8
EBIT	385.8	350.0	10.2
Interest	20.0	21.4	(6.5)
Other Income	6.3	6.6	(4.5)
PBT	372.1	335.2	11.0
Provision for tax (including deferred tax)	64.2	34.3	87.2
Net Profit	307.9	300.9	2.3
Extra-ordinary items	50.7	0.0	
Tax adjustment of previous years	35.0	5.0	
Net profit after extra-ordinary items	393.6	305.9	28.7
Equity	225.8	225.8	
EPS	1.7	1.4	
Key ratios	Q4FY07	Q4FY06	
Gross margins %	53.8	55.1	
A&SP to sales %	8.9	9.7	
Employee cost to sales %	5.3	7.6	
EBITDA %	17.8	19.9	
Effective tax rate %	17.3	10.2	
Excise duty to gross sales %	2.5	3.9	
NPM %	12.7	15.7	
Segment Result	Q4FY07	Q4FY06	YOY %
Segment Revenues			
Soaps	1212.9	1016.4	19.3
Personal care (Including Keyline & Rapidol)	1211.3	898.8	34.8
Total gross sales	2424.2	1915.2	26.6
Segment PBIT			
Soaps	135.0	131.5	2.7
Personal care (Including Keyline & Rapidol)	306.8	288.9	6.2
Total segment PBIT	441.8	420.4	5.1
Segment margins %			
Soaps	11.1%	12.9%	
Personal care (Including Keyline & Rapidol)	25.3%	32.1%	
Aggregate PBIT margins	18.2%	22.0%	
Category-wise revenue performance	Q4FY07	Q4FY06	YOY %
Godrej Brands			
Soaps	1179.1	985.4	19.7

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Hair Colours	541.3	430.2	25.8
Toiletries	612.2	417.9	46.5
Liquid Detergents	53.0	44.4	19.4
Total Godrej Brands	2385.6	1877.9	27.0
By-Products	38.6	37.3	3.5
Total	2424.2	1915.2	26.6

Source: IISL research, company

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Financials

Profit & Loss

In Rs million	FY06	FY07E	FY08E	FY09E
Net sales	6,997.2	9,517.1	11,273	12,993.0
YoY (%)	24.4	36.0	18.4	15.3
Total expenses	5,584.7	7,720.3	8,979.3	10,244.9
Raw material cost	3,261.8	4,651.3	5,425.1	6,229.5
Staff cost	475.4	543.8	625.4	719.2
Power and fuel cost	210.8	284.5	325.5	373.8
Other manufacturing expenses	127.6	163.3	196.5	225.6
Selling expenses	816.5	1,090.5	1,278.7	1,435.0
Other expenses	692.7	986.8	1,128.0	1,261.9
EBIDTA	1,412.5	1,796.9	2,293.4	2,748.1
YoY (%)	40.6	27.2	27.6	19.8
EBIDTA (%)	20.2	18.9	20.3	21.2
Other income	87.8	26.5	77.4	100.7
PBITD	1,500.3	1,823.4	2,370.8	2,848.7
Interest	64.7	96.3	135.7	82.8
Gross profit	1,435.5	1,727.1	2,235.1	2,766.0
Depreciation	114.7	142.1	161.1	193.4
PBT and extra ordinary	1,320.8	1,585.0	2,073.9	2,572.6
Extra ordinary items	5.0	98.8	0.0	0.0
PBT	1,325.8	1,683.8	2,073.9	2,572.6
(-) Tax	112.8	243.4	311.1	385.9
Tax/ PBT	8.5	14.5	15.0	15.0
PAT	1,213.0	1,440.4	1,762.8	2,186.7
YoY (%)	35.4	18.7	22.4	24.0
NPM %	17.3	15.1	15.6	16.8

Key Ratios

	FY06	FY07E	FY08E	FY09E
EPS (Rs)	5.4	6.4	7.8	9.7
CEPS (Rs)	5.8	6.8	8.7	10.8
Book value (Rs)	3.5	6.0	9.9	15.0
Dividend per share (Rs)	3.5	3.4	3.9	4.5
Debt-equity (x)	0.9	1.1	0.4	0.1
ROCE	88.0	57.8	68.0	68.9
ROE	154.2	106.1	79.1	64.4

Valuations

PE (x)	26.8	22.6	18.4	14.9
Cash PE (x)	24.8	21.2	16.5	13.4
PEG Ratio	0.8	1.2	0.8	0.6
Price/book value (x)	41.3	24.0	14.6	9.6
Dividend yield	2.4	2.4	2.7	3.1
Market cap/sales	4.6	3.4	2.9	2.5
EV/sales (x)	4.7	3.5	2.9	2.5
EV/EBDITA (x)	23.3	18.8	14.5	11.9

Balance Sheet

In Rs million	FY06	FY07E	FY08E	FY09E
Equity capital	225.8	225.8	225.8	225.8
Preference capital	0.0	0.0	0.0	0.0
Reserves	561.0	1,131.5	2,002.6	3,170.3
Net worth	786.8	1,357.4	2,228.5	3,396.1
Total borrowings	687.2	1,507.5	908.4	309.1
Deferred tax	65.7	97.7	139.1	190.6
Total liabilities	1,539.7	2,962.5	3,276.1	3,895.8
Gross block	2,622.2	3,543.5	3,643.5	3,743.5
Less: Acc. depreciation	991.8	1,125.4	1,286.5	1,479.9
Net block	1,630.4	2,418.1	2,357.0	2,263.6
CWIP	70.6	0.0	0.0	0.0
Investments	10.1	1,176.8	1,665.4	2,496.7
Current assets	1,717.1	2,202.3	2,511.0	2,826.9
Inventories	1,004.7	1,389.0	1,618.9	1,855.1
Debtors	306.2	413.4	484.7	556.6
Cash	263.4	250.0	250.0	250.0
Loans and advances	142.8	149.9	157.4	165.3
Current liabilities	1,787.3	2,008.9	2,304.1	2,610.9
Provisions	101.1	825.8	953.2	1,080.6
Net current assets	(171.3)	(632.4)	(746.3)	(864.5)
Miscellaneous expenses	0.0	0.0	0.0	0.0
Total assets	1,539.7	2,962.5	3,276.1	3,895.8

Cash Flow

In Rs million	FY06	FY07E	FY08E	FY09E
Net profit	1,213.0	1,359.1	1,762.8	2,186.7
Depn and w/o	114.7	133.6	161.1	193.4
Deferred tax	(13.8)	32.0	41.5	51.5
Change in working cap	(29.8)	447.7	113.9	118.2
Operating cash flow	1,284.2	1,972.4	2,079.3	2,549.8
Capex	(801.5)	(850.7)	(100.0)	(100.0)
Investments	(10.1)	(1,166.8)	(488.6)	(831.3)
Investing cash flow	(811.6)	(2,017.5)	(588.6)	(931.3)
Dividend	(790.5)	(764.3)	(891.7)	(1,019.1)
Fresh equity	0.0	0.0	0.0	0.0
Debt	625.9	820.3	(599.1)	(599.4)
Financing cash flow	(164.6)	56.0	(1,490.8)	(1,618.5)
Others	(134.3)	(24.3)	0.0	0.0
Net change in cash	173.7	(13.4)	0.0	0.0
Opening cash	89.7	263.4	250.0	250.0
Closing cash	263.4	250.0	250.0	250.0

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