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Take Five

Scrip	Reco Date	Reco Price	CMP	Target
Bajaj Auto	15-Nov-05	1,873	**2,320**	3,500
BHEL	11-Nov-05	1,203	**1,722**	2,650
Infosys	30-Dec-03	1,378	**2,702**	3,324
Ranbaxy	23-Dec-03	534	**342**	600
TV18	23-May-05	280	**430**	704

Sharekhan Ltd
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Godrej Consumer Products

Apple Green

Stock Update

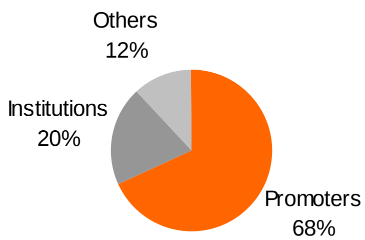
The makings of an FMCG MNC

Buy; CMP: Rs547

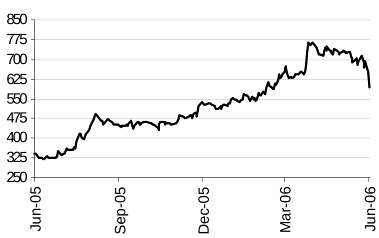
Company details

Price target:	Rs912
Market cap:	Rs3,088 cr
52 week high/low:	Rs799/311
NSE volume: (No of shares)	22,088
BSE code:	532424
NSE code:	GODREJCP
Sharekhan code:	GODRCON
Free float: (No of shares)	1.8 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-17.8	-8.6	12.2	77.7
Relative to Sensex	3.8	0.0	1.7	21.5

We attended the analyst meet of Godrej Consumer Products Ltd (GCPL) recently. The key takeaways from the meet are discussed in this report.

The company's management maintains a positive outlook on the company's core businesses of soaps and personal care products. It expects a sustained double-digit growth in the revenue in the coming years. The management's optimism stems from various factors such as:

(1) the buoyancy in the economy which is driving the disposable incomes and consequently boosting the demand for consumer products across categories;

(2) the strong growth momentum in both the rural and urban areas which is sustainable;

(3) the growing trend of organised retailing in the country which is resulting in incremental growth;

(4) the huge decline in consumer downtrading within a product category and the rising consciousness of the consumers with regard to quality and value-for-money propositions; and

(5) the willingness of GCPL to grow via the inorganic route, ie by carrying out acquisitions in domestic and foreign markets.

GCPL has also drawn up a long-term strategy to (1) maintain the growth momentum in the long run and (2) achieve the status of a fast moving consumer good (FMCG) multinational (MNC).

Outlook of higher-than-industry growth in soap business maintained

Against a 3.2% industry growth, GCPL clocked a 17.5% growth in its soap business during FY2006 and has been growing at a higher rate compared with the industry for the past five years. Its share in the soap market stands at 9.4%, up 110 basis points over FY2005. The company expects to grow the business at a rate higher than the industry growth rate and gain market share (100 basis points every year) by continuing to focus on value-for-money propositions (*Godrej No 1*) and carving a niche in the cluttered soap market. It also means to continue its efforts to innovate and enrich its product portfolio (remember *Evita*, an age control soap, which it launched some months back?). Plans are also afoot to set up a new capacity in Baddi (Himachal Pradesh) at a cost of Rs95 crore to support the new product launches and achieve a higher-than-industry growth. Lastly, the company is also expanding its distribution network by entering satellite towns and pushing sales by adopting a modern retail format.

Growth momentum in personal care business to continue

In the hair colour segment, GCPL is a market leader with a 39.2% market share. The company continues to be bullish on the segment considering the under-penetration of the product category in India with the hair colour market being 1/8th of the soap market (globally the hair colour market is twice the size of the toilet soap market). Also it has a balanced product portfolio with presence across product categories. It is exploring opportunities in Nepal, Sri Lanka and the Middle-East for low-cost powdered hair dye. The expansion plan under which it is setting up a new plant in Sikkim at the cost of Rs10 crore is also expected to boost the business of hair colours.

In the toiletry business, GCPL is still a minnow given that it earned revenues of only Rs39 crore in FY2006. But the company has been growing at a stupendous rate of late—it grew by 61% year on year in FY2006 and has the ability to grow at a higher rate. The company plans to focus on the high-margin, high-growth business of toiletries for maximum profit. It is therefore widening its product basket by launching products either from the Keyline Brand stable or on its own. It also has stepped up its advertising spend to raise awareness of its products and is using the inorganic route to grow in the new product categories, eg it has acquired the *Snuggy* brand in the diaper space.

In the liquid detergent segment, GCPL's liquid detergent brand *Ezee* is a market leader with an 83.5% share. The product is meant for hand-washing woolen garments. The company is now mulling the idea of entering the liquid detergent market for washing machines as well, which will drive the growth of its liquid detergent business.

Growing inorganically—acquiring Keyline Brand and other brands

Keyline Brand clocked revenues of GBP5.2 million and a profit before tax of GBP0.6 million in the November-March 2006 period. The performance is not indicative for the full year due to the seasonal nature of the business (the June-September period is the main season). GCPL believes the Keyline Brand acquisition would help it achieve the long-desired tag of "an Indian FMCG MNC". The acquisition will improve its performance with the resulting synergies. For example, post-acquisition the production of the Keyline Brand products would be shifted to GCPL's plants. GCPL also plans to launch one Keyline Brand product (*Aapri*, *Erasmic*, *Inecto*, *Nulon*) in India every year, thereby strengthening its product offerings. These products would remain in the premium category, even though the lower cost of manufacturing would be passed on to the consumers. GCPL's own products would also be pushed through the Keyline Brand distribution channel. The process of the integration of Keyline Brand with GCPL is progressing as per plan. In line with its enterprise value-added (EVA) approach, GCPL aims to turn Keyline Brand EVA positive in FY2007.

GCPL believes the acquisition of Keyline Brand is just the beginning and is open to more acquisitions, provided the same add to the value and earnings of its existing business. Currently, GCPL is looking at regions like the Middle-East, the Far East and Latin America to make an acquisition in the hair colour space.

Valuations

The business outlook and strategies shared by the GCPL management in the analyst meet are in keeping with the reasons why we put a Buy on the GCPL stock (refer our Investment arguments as mentioned in our Stock Idea report "Rich lather and colour", dated December 5, 2005). There has been no deviation from our assumptions and hence we remain bullish on the stock. We continue to like GCPL considering (1) the upside in the core product categories (due to a combination of a lower market share and under-penetration of products); (2) the growth along with the widening of the product basket, which now includes shaving cream, diaper, talc powder etc; (3) the opportunity to grow across geographies with the acquisition of Keyline Brand; and (4) the healthy cash generation and profitable deployment of the cash, eg it is setting up of new capacities in Baddi (Himachal Pradesh) and Sikkim.

The stock trades at a price/earnings ratio of 17.4x FY2008E earnings and enterprise value/earnings before interest, depreciation, tax and amortisation of 14.8x FY2008E. The valuations are in line with that of its peers, which are trading in the range of 15-20x FY2008E earnings.

Company	* PER (x)
Dabur India	20.0
GCPL	17.4
HLL@	21.9
ITC@	16.7
Marico	15.1
Nestle	20.3

* Based on FY2008 estimations @ Based on CY2007 estimations

We like the expertise with which GCPL has managed the Keyline Brand acquisition—in a very short time period and at an attractive valuation. We also don't doubt its prowess and ability to carry out more such acquisitions in the coming quarters. The company's strong financials (an astronomical return on capital employed of 199.2% in FY2005E), good earnings growth, healthy cashflow and sound strategy to maximise the shareholder value (by giving a high dividend pay-out and buying back its shares) warrant the premium valuation. We reiterate our Buy call on GCPL with a 12-month price target of Rs912, expecting an upside of 66.7% from the current levels.

Earnings table

Particulars	FY04	FY05	FY06	FY07E	FY08E
Stand-alone					
Net profit (Rs cr)	65.1	83.1	121.2	148.5	177.7
Share in issue (cr)	5.7	5.7	5.6	5.6	5.6
EPS (Rs)	11.5	14.7	21.5	26.3	31.5
% y-o-y growth	*22.3*	*28.3*	*46.2*	*22.5*	*19.7*
PER (x)	47.8	37.2	25.5	20.8	17.4
Book value (Rs)	7.5	8.8	14.0	23.6	39.1
P/BV (x)	73.4	62.1	41.1	23.2	14.0
EV/EBIDTA (x)	36.2	31.2	21.8	18.0	14.8
Dividend yield (%)	1.6	2.2	2.6	2.6	2.6
ROCE (%)	119.5	150.4	199.2	151.4	108.3
RONW (%)	153.7	166.8	161.4	111.4	80.5
Consolidated					
Net profit (Rs cr)	73.6	96.0	138.2	170.4	205.8
EPS (Rs)	13.0	17.0	24.5	30.2	36.5
% y-o-y growth	*28.3*	*31.0*	*44.3*	*23.3*	*20.8*
PER (x)	46.0	35.1	24.4	19.7	16.4

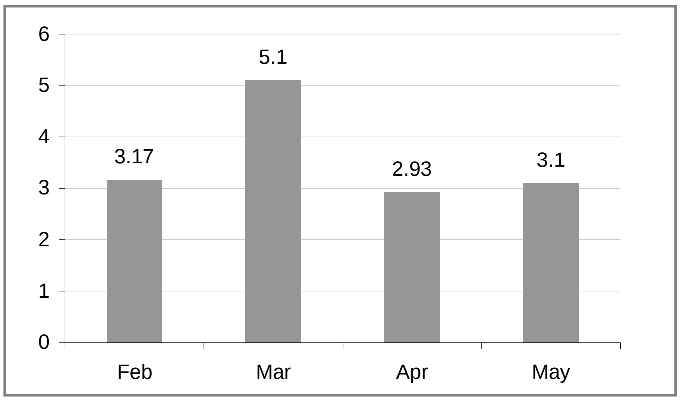
Telecom

Sector Update

India's cellular subscriber base crosses 100 million

With an addition of 4.2 million new users in May, the country's cellular subscriber base has crossed the 100-milllion mark. The total subscriber base has grown by 4.4% and stands at 100.6 million as of May 2006. The addition of 3.18 million users in the month has taken the GSM subscriber base to 75.32 million. On the CDMA front, 1.1 million new users were added in May, that is a growth of 4.55% over April 2006.

Addition to GSM subscribers (million users)

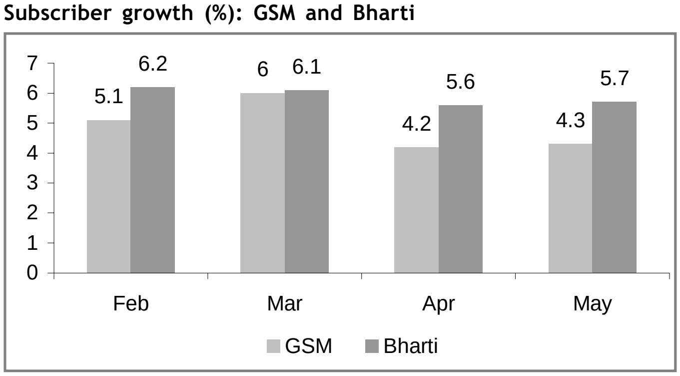


Source: Sharekhan Research

It's Bharti again

Bharti Airtel added 1.18 million users in May, taking its total subscriber base to 21.86 million. Thus Bharti's market share in the overall cellular market now stands at 21.7% as against 21.5% in April 2005. It now holds a 29% share of the GSM market. Bharti continued to grow ahead of the industry by clocking a growth of 5.7%, well ahead of the 4.3% growth reported by the overall GSM category for the month. Bharat Sanchar Nigam Ltd (BSNL) managed to add 0.41 million users during the month, taking its user base to 18 million. Its overall market share now stands at 17.9%. BSNL's growth has been low after March 2006, when it grew by 6.8%. Among the other GSM players, Idea grew by 5.5%, adding 0.42 new users in May. Idea's user base now stands at 8.06 million with an overall market share of 8% .

Subscriber growth (%): GSM and Bharti



Source: Sharekhan Research

Reliance Communication Venture added 0.65 million subscribers recording a growth of a 3.1% month over month. Its user base now stands at 21.5 million with an overall market share of 21.3%. Its subscriber base could grow above 3% on the back of a 7.26% growth in its GSM subscribers, which now stand at 2.16 million. Tata Teleservices reported a good growth by adding 0.5 million subscribers in May, a growth of 10.9% over the previous month. The company's user base has increased from 5.32 million in April 2006 to 5.9 million in May 2006. The subscriber addition number for the fixed line service is not yet available.

Cellular operators continue to offer lucrative schemes, which along with the reduced calling rates will ensure a good growth in the population of wireless subscribers going ahead too.

Cellular subscriber base as on May 2006 (million users)

Operator	May-06	Apr-06	% chg	Addition	Market share %
Bharti	21.9	20.7	5.7	1.2	21.7
Reliance	21.5	20.8	3.1	0.6	21.3
BSNL	18.0	17.6	2.3	0.4	17.9
Hutch*	16.0	15.4	4.0	0.6	15.9
Idea	8.1	7.6	5.5	0.4	8.0
Tata Tele	5.9	5.3	10.9	0.6	5.9
Total	100.6	96.4	4.4	4.2	

*Excluding BPL

The author doesn't hold any investment in any of the companies mentioned in the article.

Sharekhan Stock Ideas

Evergreen

HDFC Bank
Infosys Technologies
Reliance Industries
Tata Consultancy Services

Apple Green

Aditya Birla Nuvo
Associated Cement Companies
Bajaj Auto
Balrampur Chini Mills
Bharat Bijlee
Bharat Heavy Electricals
Corporation Bank
Crompton Greaves
Godrej Consumer Products
Elder Pharmaceuticals
Grasim Industries
Hindustan Lever
Hyderabad Industries
ICICI Bank
Indian Hotel Company
ITC
Mahindra & Mahindra
Marico Industries
Maruti Udyog
MRO-TEK
Lupin
Nicholas Piramal India
Omax Auto
Ranbaxy Laboratories
Satyam Computer Services
Sintex Industries
SKF India
State Bank of India
Sundaram Clayton
Tata Motors
Tata Tea
Unichem Laboratories

Cannonball

Cipla
Gateway Distriparks
International Combustion (India)
JK Cements
Madras Cement
Shree Cement
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Emerging Star

3i Infotech
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Alok Industries
Alphageo India
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KSB Pumps
Marksans Pharma
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ORG Informatics
Solectron Centum Electronics
Television Eighteen India
Thermax
Tube Investments of India
TVS Motor Company
UTI Bank
Welspun Gujarat Stahl Rohren
Welspun India

Ugly Duckling

Ashok Leyland
Deepak Fertilisers & Petrochemicals Corporation
Genus Overseas Electronics
HCL Technologies
ICI India
Jaiprakash Associates
JM Financial
KEI Industries
Nelco
NIIT Technologies
Punjab National Bank
Ratnamani Metals and Tubes
Sanghvi Movers
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