

Investment idea

October 12, 2012

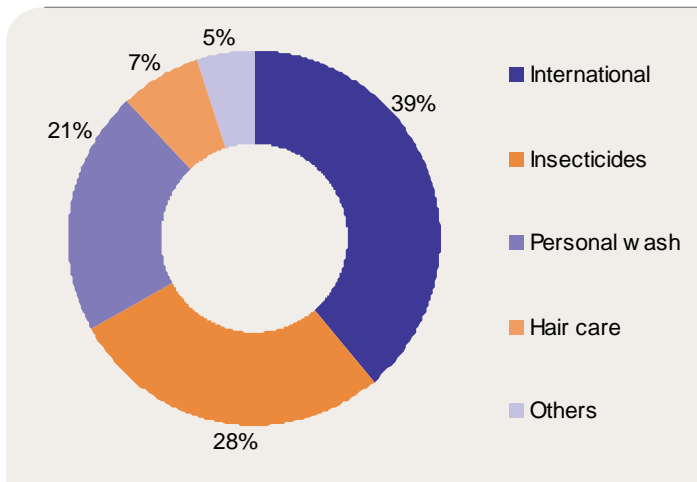
Godrej Consumer Products Ltd

BUY
CMP ₹670

Favourable revenue mix change in the domestic business

Post the merger of the erstwhile Godrej Sara Lee (Household Insecticides - HI) business in FY10, GCPL's domestic revenues have more than doubled in the past two years. Prior to the merger, Soaps segment contributed ~68% of GCPL's revenues in FY09, which has come down to ~36% in FY12 while insecticides business now accounts for a major share of 45%. The ~₹30bn domestic Household Insecticide market is an attractive high-growth market with low penetration levels of ~30%, rational competition and minimal possibility of any new entrants. Soaps being the matured category in India with penetration levels of 90%+ and offering a low growth potential, the change in revenue mix augured well for the company. The management is looking at revenue synergies of ~₹15-20bn and cost synergies of ~₹2-2.5bn per year by FY15 from the merger.

Consolidated revenue mix – FY12



Source: Company, India Infoline Research

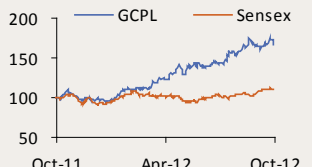
3x3 strategy working very well

GCPL's 3x3 strategy - presence in emerging markets in Asia, Africa and Latin America, through three core categories – personal wash, hair care and home care is working very well. In FY10, the international business (IB) mix was skewed towards developed markets, mainly the UK. With a series of acquisitions in FY11, GCPL's IB is now an emerging-market play on Indonesia, Africa and South America. The two key metrics, which GCPL follows for international acquisitions are i) the acquisition has to be EPS accretive and ii) the time-frame to achieve breakeven. We expect GCPL's strategy of deriving synergies and cross-selling benefits out of the acquisitions made in the recent past to result in steady growth going ahead.

Getting aggressive in innovations ... can help cross-pollination

On the international front, GCPL enjoys market leadership position in almost all the categories it operates in, with limited competitive intensity. It has become aggressive in innovations across its key markets and plans to derive synergy benefits by launching some of its existing products to other geographies like hair colour in Indonesia, home insecticides in Africa and Latin

Sector: FMCG		Shareholding pattern	
BSE code:	532424	September'12	(%)
NSE code:	GODREJCP	Promoters	63.8
52 Week h/l (₹):	718 / 370	Institutions	28.6
Market cap (₹cr):	23,033	Non promoter corp	1.7
FV (₹):	1	Public & others	5.9

Performance rel. to sensx				Share price chart	
(%)	1m	3m	1yr		
GCPL	(0.9)	8.3	58.8		
HUL	2.4	20.8	65.3		
ITC	1.3	3.7	29.4		
Dabur	1.4	8.3	24.2		

America. The cross-pollination of products is a great opportunity for GCPL, especially for the house insecticides segment, which has similar products across markets and needs minimal change in formulation or packaging. We believe GCPL will take full advantage of these cross pollination opportunities in FY13, which in turn will further drive growth.

Strong earnings visibility, maintain BUY

GCPL is transforming itself in to an emerging-market play on high growth categories such as home insecticides, hair extensions and hair colours. With strong growth momentum in both domestic and international businesses and successful acquisitions, GCPL management is confident of achieving 26% revenue CAGR over the next 10 years. Around 10% growth is envisaged through the inorganic route which translates into a 10x jump in revenues by 2021. GCPL's successful acquisition integration in the past makes us confident of the management's ability to derive synergy benefits. At the current market price of ₹670, the stock is trading at 23.7x FY14E EPS of ₹28.3. GCPL has traded in the range of 18x to 28x over the past one year (avg 22.8x). Given the strong earnings growth prospects, we see headroom for further expansion of PE multiple.

Financial summary

Y/e 31 Mar (₹ m)	FY11	FY12	FY13E	FY14E
Revenues	36,936	48,662	63,150	78,622
Yoy growth (%)	81.0	31.7	29.8	24.5
Operating profit	6,531	8,554	11,114	13,877
OPM (%)	17.7	17.6	17.6	17.7
Reported PAT	5,147	7,267	7,670	9,631
yoy growth (%)	51.6	41.2	5.5	25.6
EPS (₹)	14.6	15.5	22.5	28.3
P/E (x)	45.8	43.3	29.7	23.7
EV/EBITDA (x)	35.1	27.7	20.9	16.3
Debt/Equity (x)	0.9	0.6	0.4	0.2
RoE (%)	35.3	23.2	24.6	25.3
RoCE (%)	31.2	21.9	23.4	26.8

Source: Company, India Infoline Research

India Infoline Weekly Wrap

Market Outlook

Main Indian stock indices dropped on the week for the first time in six weeks, as investors stepped back after pushing the Sensex to multi-month highs. A warning by rating agency S&P coupled with disappointing results from Infosys and downbeat trade deficit data weighed on the sentiment.

The undercurrent was also partly hit by weak global markets after the IMF slashed its growth forecast for the world economy and warned of further problems if the fiscal mess in Europe and the US is not addressed decisively.

The earnings season is underway, and will vie for investors' attention in the next few weeks. WPI inflation data due out on Monday will have some bearing on sentiment, especially after the recent diesel price hike. The WPI print for September could partly influence RBI's stance at its month-end policy review.

While the Government has unleashed a spate of reform measures in the recent past, much ground still needs to be covered, especially on the fiscal front. Once done, that will then pressure the RBI also into taking appropriate monetary action.

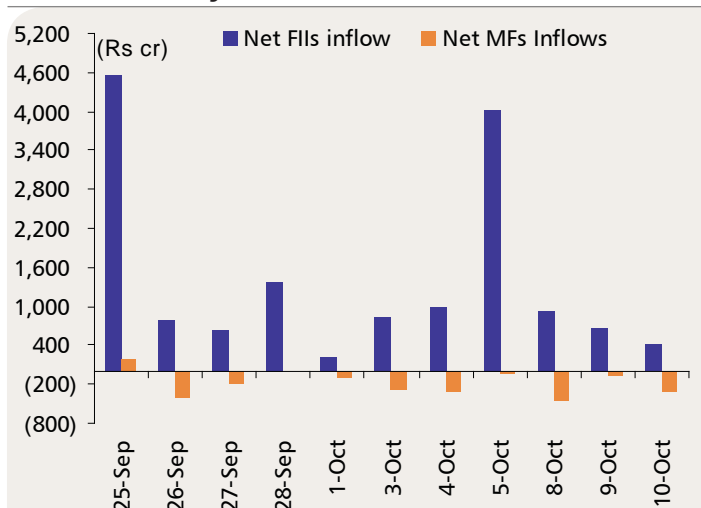
Technical View

Markets for the week ended in negative terrain thus ending five weeks of winning streak but managed to close above earlier breakout levels of 5630 levels. The 5630 levels remains key pivot point for current uptrend and as close below same could lead to unwinding pressure in the markets. Indian markets has been decoupling with its global peers on back of reform push from central government and move of USDINR below 53 levels keeps the positive momentum intact.

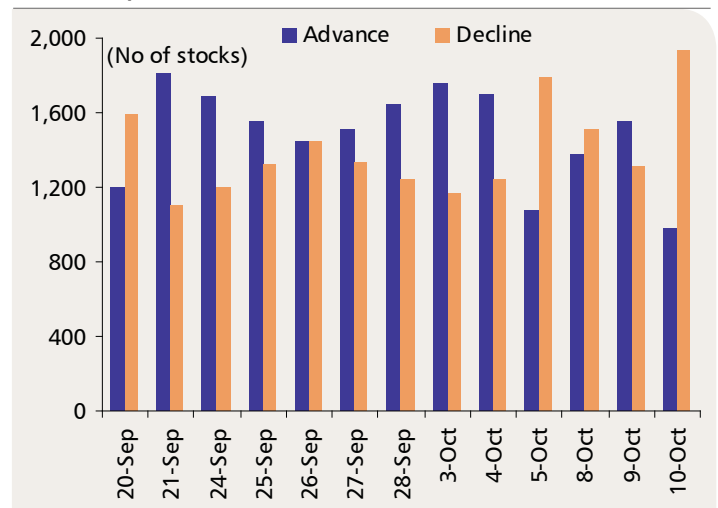
F&O View

Long unwinding was witnessed by FII in Nifty Futures, while Bank nifty witnessed addition of short position in last few trading session. Short straddle at Nifty October 5700 call and put has witnessed writing at an average price of around 140, the breakeven of the strategy is at 5560 and 5840. The VWAP for Nifty is at 5740 and Bank Nifty is at 11515. We expect Nifty to trade in 5780 -5560 range for next week.

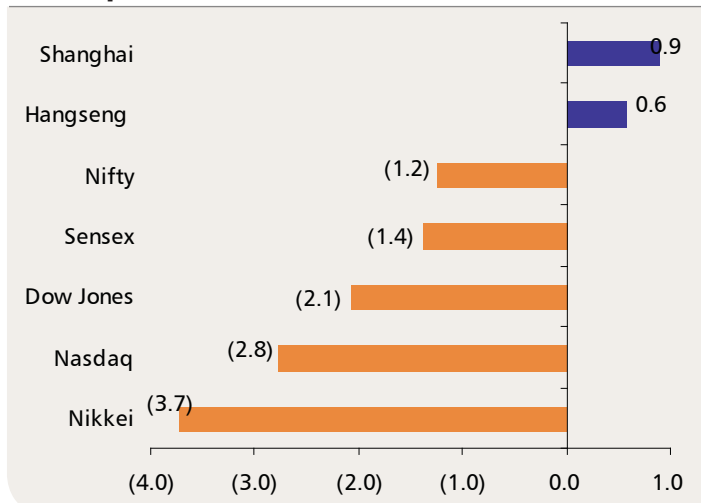
FII/MFs activity



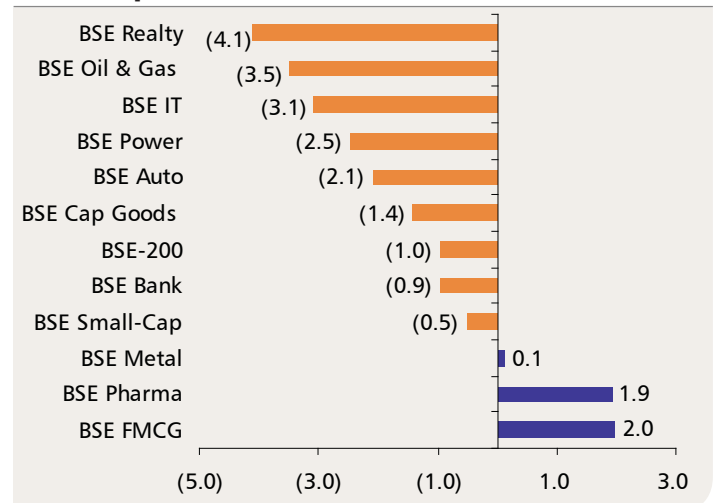
Advance/Decline



Global performance



Sectoral performance



India Infoline Weekly Wrap

Technical Check

Nifty 50 & CNX 500 top 10 gainers

NSE Nifty			CNX 500		
Company	CMP (₹)	% Chg	Company	CMP (₹)	% Chg
Sun Pharma	713	4.5	Dcm Shriram	60	17.2
JP Assoc.	93	4.5	KCP	40	15.7
ITC	284	2.8	Karuturi Global	5	13.3
ACC	1,498	2.8	Bajaj Electrical	225	12.2
Tata Steel	421	2.5	Electrosteel	22	12.0
Ranbaxy Labs	540	1.9	J&K Bank	1,134	11.2
Sterlite Ind.	103	1.9	Wockhardt	1,418	11.0
HUL	575	1.7	GTL	33	10.5
Power Grid	120	1.5	Balaji Tele	54	9.5
HCL Tech	582	1.4	GT Offshore	114	9.3

Nifty 50 & CNX 500 top 10 Losers

NSE Nifty			CNX 500		
Company	CMP (₹)	% Chg	Company	CMP (₹)	% Chg
DLF	219	(9.6)	Tulip Telecom	35	(22.5)
Siemens	687	(7.7)	Pantaloon Retail	191	(11.0)
BHEL	245	(7.0)	Amtek Auto	79	(11.0)
Wipro	352	(5.7)	DLF	219	(9.6)
Hindalco Ind	118	(5.6)	Suzlon Energy	16	(9.4)
INFY	2,395	(5.2)	Mirc Elec.	11	(7.4)
Reliance Infra	514	(5.1)	BHEL	245	(7.0)
IDFC	151	(5.1)	Jb Chems	70	(6.9)
Reliance Ind	819	(4.5)	Bajaj Finserv	859	(6.4)
SBI	2,252	(3.7)	EKC	32	(6.1)

Technically strong

Company	CMP (₹)	10 days Moving Average (₹)	Total Traded Qty (lacs)	10 days Average Traded Qty (lacs)
Jain Irrigation	73	71	9.3	7.2
Ambuja Cem	215	210	6.0	4.0
Balrampur Chini	70	67	18.8	3.8
Dabur India	135	129	1.4	1.1
Bhushan Steel	504	497	1.4	0.8

Technically weak

Company	CMP (₹)	10 days Moving Average (₹)	Total Traded Qty (lacs)	10 days Average Traded Qty (lacs)
HPCL	308	313	1.3	0.9
Central Bank	76	77	3.7	2.1
Apollo Tyres	87	89	8.3	6.1
Rolta	71	73	1.3	1.1
Infy	2396	2544	13.7	0.9

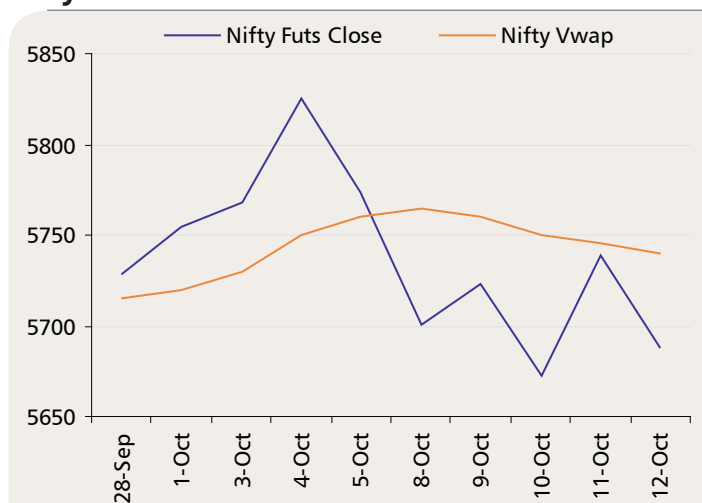
Bulk deals

Date	Institution	Scrip name	B/S	Qty (lacs)	Price (₹)
9-Oct	Merrill Lynch	IVRCL Limited	B	20.0	47.09
9-Oct	Societe Generale	IVRCL Limited	B	22.2	46.2
10-Oct	Ibulls Real Estate	Ibulls Real Estate	B	38.5	60.5
10-Oct	Vontobel Funds	Shriram City	B	24.5	771.0

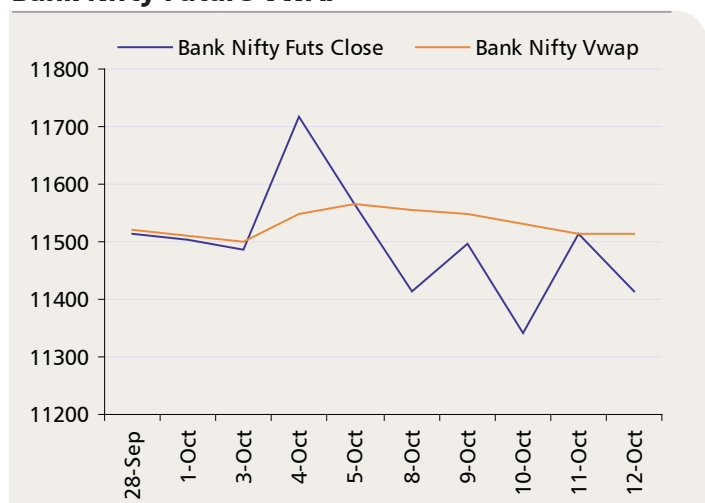
Book closure and record date

Company	Date	Purpose
Ganon Trading	15 Oct 2012	BONUS 30:1
Infosys	18 Oct 2012	Interim Dividend
HCL Tech	19 Oct 2012	Final & Interim Dividend

Nifty Future VWAP



Bank Nifty Future VWAP



India Infoline Weekly Wrap

Commodity Corner

Base metals

Base metals have scaled back gains this week, impacted by looming Spanish debt concerns and poor macroeconomic forecasts across various geographies. International Monetary Fund has lowered its forecasts for global economic growth to 3.3% this year (the slowest since 2009) and 3.6% in 2013. In addition, World Bank expects China's growth to come in at 7.7% in 2012 (down from 8.2%) and 8.1% in 2013. In Europe, German industrial orders were down 1.3% in August compared with the previous month. On demand front, Chinese auto sales of passenger cars in China fell 0.30% in September from a year earlier to 1.32mn units. In China, the country's central bank is considering another round of reverse bond repurchase injections, however it has failed to provide any major support to the markets.

Poor flow of macroeconomic numbers categorically from China & Europe, coupled with dull economic growth forecasts is dissuading the metal bulls from venturing in to aggressive positions. Considering the prevalent lackluster tone, market participants await for further direction from the slew of Chinese macroeconomic numbers scheduled next week, including metals trade figures and Q3 GDP data.

Precious metals

Precious metals traded tentatively this week, as better employment numbers on US front kept a lid on the prices. September jobs report showed the U.S unemployment rate dipping to 7.8%. The decline in unemployment rate implies that Federal Reserve will likely shorten its easing window, if the labor markets show further signs of progress. In addition, U.S jobless claims fell to 4 year low during last week. Gold prices retreated from 2012 highs, as US\$1,790-1,800 range has proved to be a strong resistance of late and breach of the same can only lead to resumption of upswing in prices. In Europe, Standard & Poor's downgrade of Spain has led the sovereign bond yields move closer to 6%; however they have retraced back now. Markets have taken some respite from IMF stance, wherein the apex body is favoring to give Greece and Spain more time to reduce their budget deficits.

Post monetary policy measures from Europe and US; speculation is rife regarding monetary injection by China. Looking forward, we infer that some kind of monetary stimulus from china is in the offing, considering the economic slowdown the nation is witnessing. In such an event, the gold bugs would get the requisite tailwind, wherein the prices would easily breach the near-term upside congestion of US\$1,800 levels. On domestic front, gold prices remain underpinned by the onset of festive season in India and relatively weak tone in Indian rupee.

Note: This market commentary is written at 12:30 PM IST

LME prices

Base Metals (US\$/ton)	High	Low	LTP*	Chg(%)
Copper	8,350	8,105	8,194	(1.2)
Nickel	18,718	17,454	17,497	(4.4)
Zinc	2,083	1,943	1,947	(6.2)
Aluminium	2,125	1,993	2,011	(4.7)
Lead	2,299	2,160	2,162	(5.5)

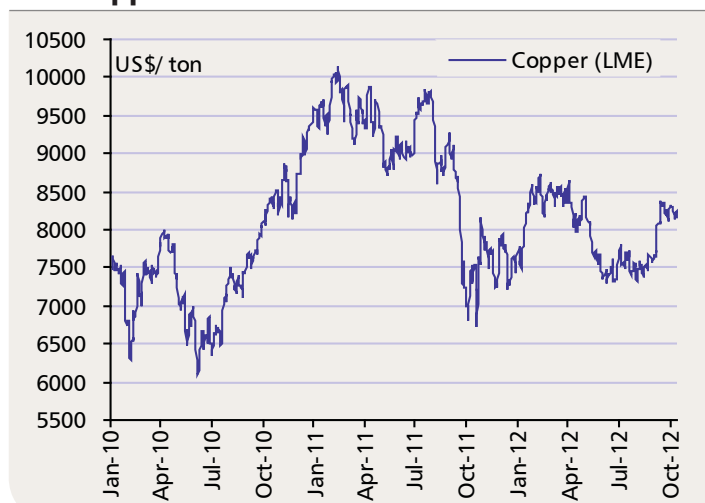
Precious Metals (US\$/ounce)	High	Low	LTP*	Chg(%)
Spot Gold	1,796	1,757	1,767	(0.7)
Spot Silver	35	34	34	(1.9)

* Last Traded Price

Weekly inventory update

	Tons	Abs Chg.	Chg (%)
Copper (LME)	215,900	(6,775)	(3.0)
Nickel (LME)	124,608	(252)	(0.2)
Zinc (LME)	1,011,975	16,425	1.6
Aluminium (LME)	5,069,575	36,575	0.7
Lead (LME)	296,725	42,150	16.6
Tin (LME)	11,755	(420)	(3.4)
Shanghai Copper	162,547	--	--
Shanghai Zinc	301,686	--	--
Shanghai Aluminium	402,005	--	--

LME Copper



COMEX Gold



India Infoline Weekly Wrap

Mutual Fund Round-up

India Infoline picks

Mutual Funds	Assets (₹ Cr)	NAV (₹)	Absolute return (%) as on Oct 12, 2012							
			1wk	1mth	3mth	6mth	1yr	2yr	3yr	5yr
HDFC Top 200(G)	10,692	214.0	(2.1)	7.5	6.0	7.8	14.4	(6.3)	25.1	43.8
ICICI Pru Dynamic(G)	4,130	110.6	(1.7)	2.7	4.0	5.6	15.0	0.3	33.9	36.7
IDFC Sterling Equity(G)	1,061	20.3	(1.1)	2.8	7.9	9.2	16.4	(0.3)	47.7	-
Fidelity Tax Advt(G)	1,203	22.4	(1.6)	3.6	6.7	7.1	11.1	(6.6)	32.6	31.8
HDFC Prudence(G)	6,356	228.3	(1.5)	6.7	5.3	7.0	13.4	2.4	42.1	64.3
Reliance Equity Oppor-Ret(G)	3,193	41.2	(3.0)	5.9	8.1	12.8	24.3	4.7	62.5	56.5
IDFC Premier Equity-A(G)	2,345	36.4	(1.5)	6.6	8.1	10.5	13.8	1.7	54.1	78.3

Funds this week: HDFC Top 200 Fund

Fund snapshot		Asset allocation (%)	
Fund Manager	Prashant Jain	Equity	99.2
Latest NAV	₹214.0	Debt	0.0
NAV 52 high/low	₹218.6/168.1	Cash/call	0.8
Latest AUM (cr)	₹11,190	Top 5 holdings (%)	
Type	Open-ended	State Bank of India	8.2
Class	Equity - Diversified	ICICI Bank Ltd.	6.7
Options	Growth & dividend	ITC Ltd.	6.2
Min investment	₹5,000	Infosys	5.2
Benchmark	BSE 200	Larsen & Toubro	4.0
No. of stocks	66	Top 3 sectors (%)	
No. of sectors	30	Banks	26.7
Expense ratio	1.8%	Energy	13.9
Exit load	1% before 1 year	FMCG	8.5

Reliance equity opportunity fund

Fund snapshot		Asset allocation (%)	
Fund Manager	Shailesh Raj Bhan	Equity	97.4
Latest NAV	₹41.2	Debt	0.0
NAV 52 high/low	₹42.5/29.3	Cash/call	2.6
Latest AUM (cr)	₹3,473	Top 5 holdings (%)	
Type	Open-ended	Divi's Labs	7.8
Class	Equity - Diversified	HDFC	6.8
Options	Growth, Dividend & Bonus	SBI	4.9
Min investment	₹5,000	ICICI Bank	4.6
Benchmark	BSE 100	Infosys	3.9
No. of stocks	34	Top 3 sectors (%)	
No. of sectors	21	Healthcare	14.7
Expense ratio	1.85%	IT	11.8
Exit load	1% before 1 year	Banks - Private	7.3

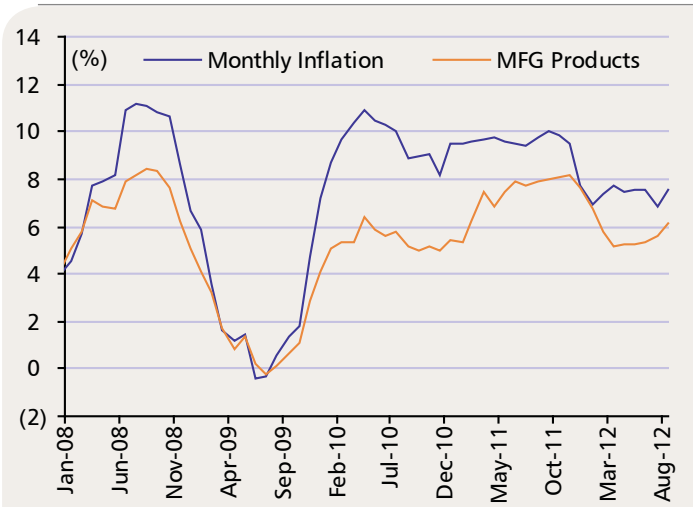
NFO update

Fund Name	Close	Type	Class
HDFC FMP 3730 Oct-12 Sr-22 (1)	17-Oct	CE	Debt
ICICI Pru FMP Sr-65-3yrs Plan A (G)	18-Oct	CE	Debt
Franklin Templeton Fixed Tenure Fund - Series XVII (3 Yrs)	27-Oct	CE	Hybrid - Debt

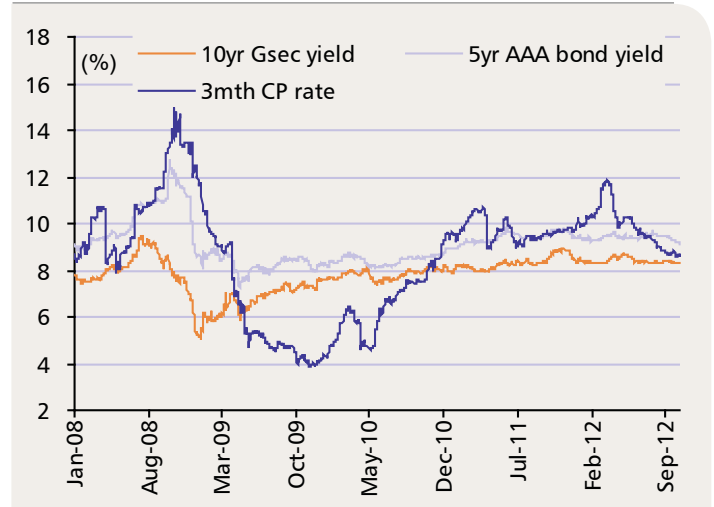
India Infoline Weekly Wrap

Chartbook

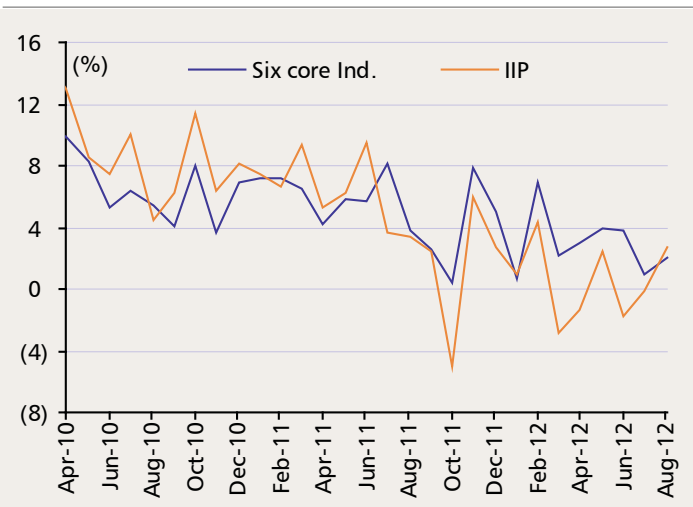
Inflation



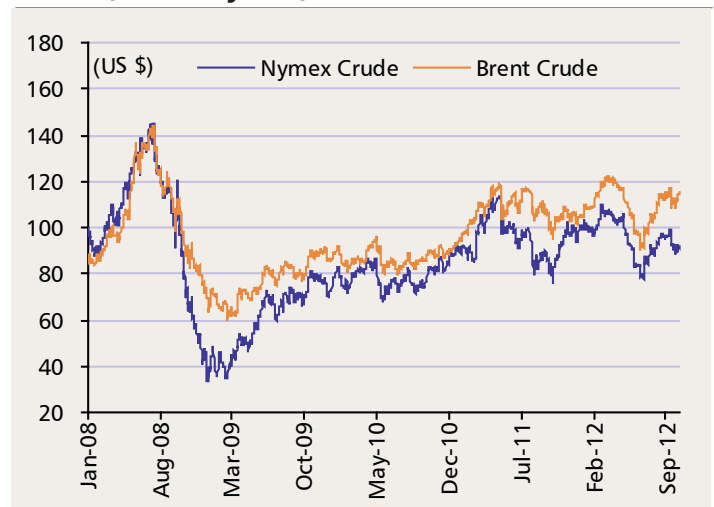
Interest Rate



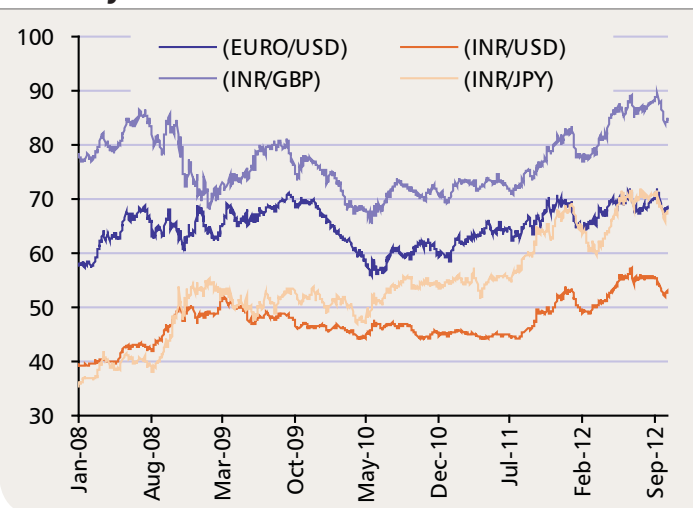
IIP and Six core Industries



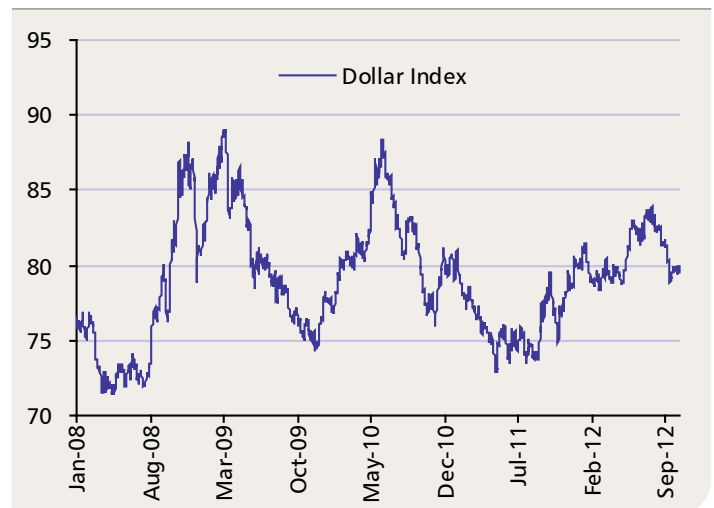
Crude (Brent/ Nymex)



Currency Movements



Dollar Index

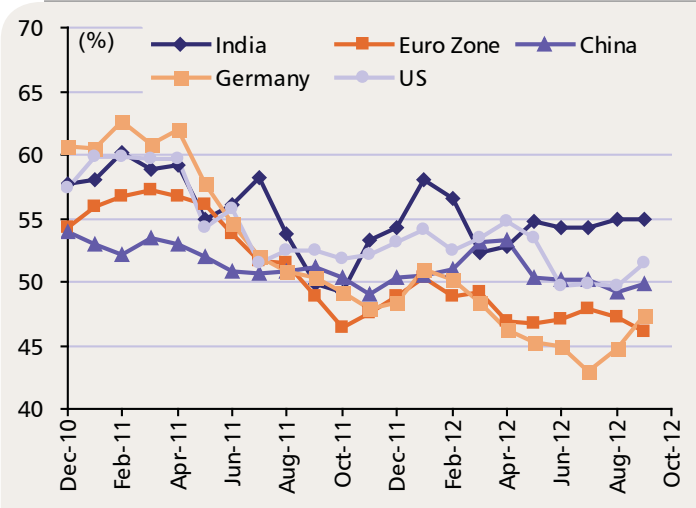


Source: Bloomberg

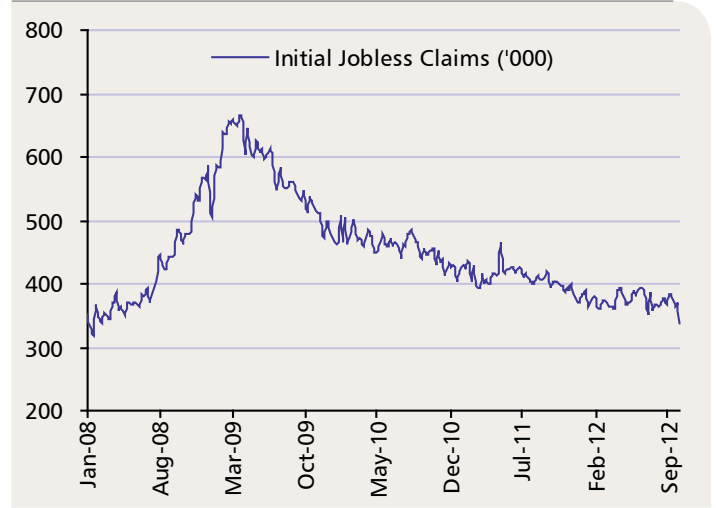
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Chartbook...

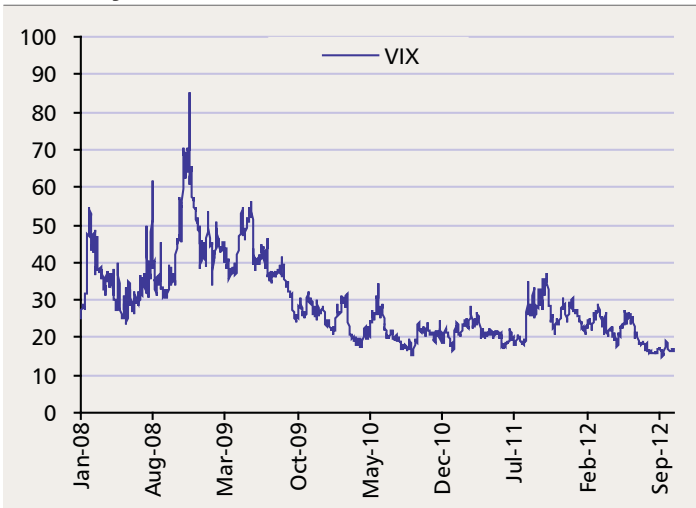
PMI



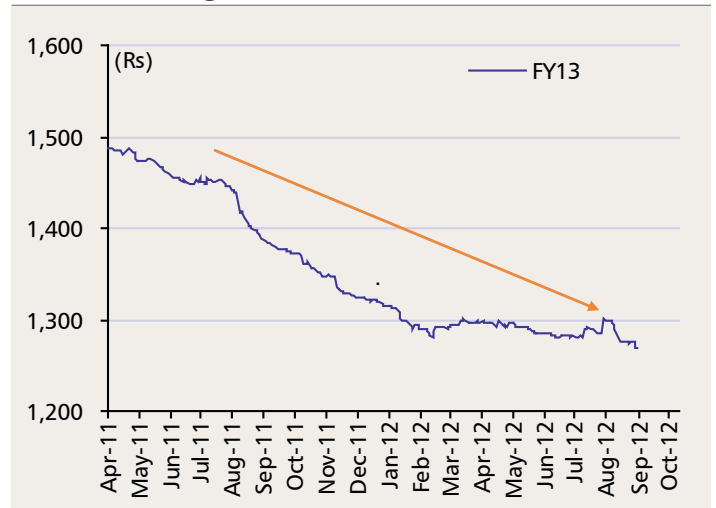
US Initial Jobless Claims



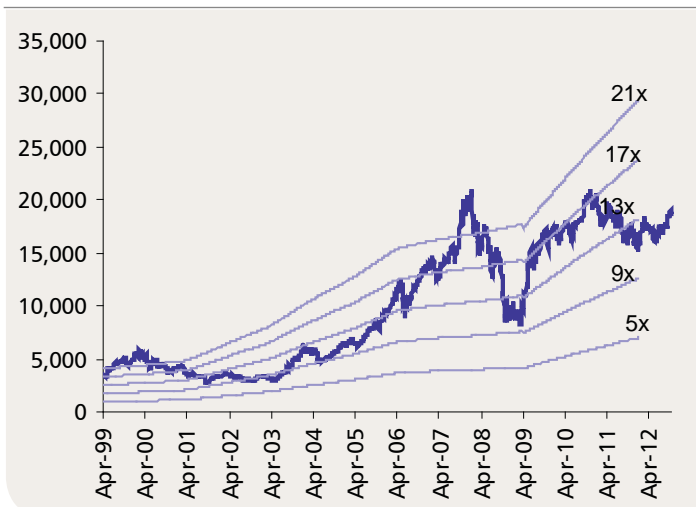
Volatility Index



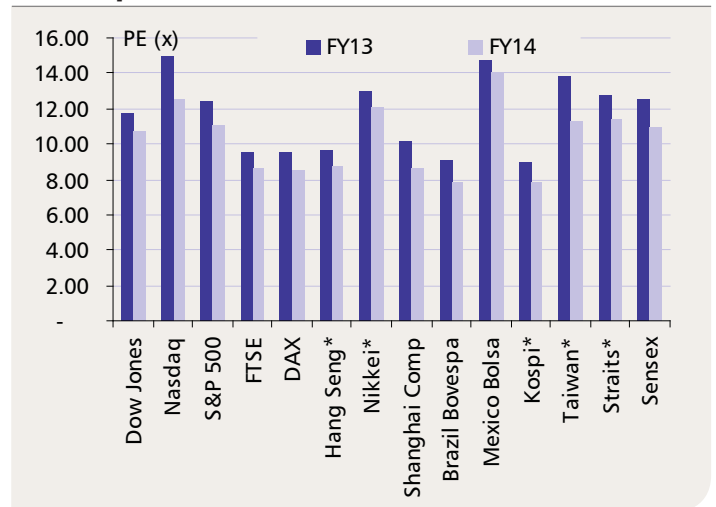
Sensex Earning Estimates



Sensex PE Band



PE Comparison



Source: Bloomberg

India Infoline Weekly Wrap

News Recap

The S&P sees significant chance of India rating downgrade but the Finance Minister is not too perturbed about the warning. The IMF and the World Bank cut India's growth forecast to 4.9% and 6%, respectively. The Parthasarathi Shome panel recommends taxing indirect transfer of Indian assets prospectively, as against the provisions of the Finance Act, 2012, to tax all such deals retrospectively. India's industrial output grew by 2.7% in Aug. 2012 vs. 3.4% last year. July's IIP reading was revised to -0.2% from 0.1%. CPI (combined) for Sept. 2012 stood at 9.73%, marginally lower from August.

The C. Rangarajan panel submitted its report on the deregulation of the sugar sector. It has suggested scrapping of control on the sugar sector. The Empowered Group of Ministers (EGoM), headed by Finance Minister P. Chidambaram, has recommended to the Union Cabinet that telecom operators be asked to pay for airwaves beyond 4.4 MHz at the auction-determined price for the remaining validity of their licence periods.

India's merchandise exports fell by ~11% in September to US\$23.7bn while imports rose by 5.1% to US\$41.78bn. As a result, the trade gap for September rose to US\$18.08bn from US\$13.19bn in the same month a year earlier. India is a key global player on the G-20 stage, said Federal Reserve Chairman Ben S. Bernanke. US Treasury Secretary Tim Geithner welcomed India's recent reforms drive. Fertilizer shares rose after a Government panel approved modified direct subsidy transfer for urea and hiked urea price by ₹ 50 per ton. SIAM cut FY13 car sales growth forecast to 1-3% after September car sales fell 5.4% year on year. It also lowered the growth

projection for CV and Two-Wheelers.

Infosys once again left investors disappointed with its Q2 FY13 earnings and full-year guidance. The stock took a beating once again. Meanwhile, HDFC Bank and IndusInd Bank both announced strong Q2 results. DLF shares remained under pressure after Arvind Kejriwal continued his campaign against the realty player for its alleged nexus with Robert Vadra, the son-in-law of congress President Sonia Gandhi. The Allahabad High Court asked the Government to respond to public interest litigation (PIL).

Realty major Unitech reached a settlement with Norway's Telenor on their troubled India JV. Unitech shares gained. Bharti Airtel lost ~1mn mobile customers in September while Idea Cellular lost ~500,000 subscribers. Suzlon defaulted on FCCB repayments; making it the biggest default by an Indian company. Suzlon shares slumped after bondholders rejected extension of FCCB maturity.

The IMF said it sees heightened risks from the US and Eurozone fiscal woes. The IMF managing director laid out a roadmap to shape the global economy post the ongoing crisis. Europe is going through historical process of integration, the IMF said. China's GDP growth will slow to 7.7% in 2012, the World Bank said. The IMF said that economic growth in Asia-Pacific region has slowed. Brazil's central bank signaled an end to its monetary easing after cutting the Selic rate by 25 basis points. The Bank of Korea cut the benchmark rate for the second time this year to try and lift the economic growth.

Event Calendar

Period : 15th – 19th October

US

- Oct Empire Manufacturing (15 Oct)
- Sep Consumer Price Index YoY (16 Oct)
- Sep Industrial Production (16 Oct)
- Sep Housing Starts MOM% (17 Oct)

India

- Sep WPI YoY (15 Oct)

China

- Sep Consumer Price Index YoY (15 Oct)
- Q3 Real GDP QoQ (18 Oct)

Eurozone

- Sep Euro-Zone CPI - Core YoY (16 Oct)
- Aug Euro-Zone Trade Balance (16 Oct)
- Aug ECB Euro-Zone Current Account (19 Oct)

Period : 22nd – 26th October

US

- Aug House Price Index MoM (24 Oct)
- FOMC Rate Decision (24 Oct)
- Sep Durable Goods Orders (25 Oct)
- Q3 GDP QoQ Annualized (26 Oct)

China

- Oct HSBC Flash Manufacturing PMI (22-25 Oct)
- Oct MNI Business Sentiment Indicator (26 Oct)

Eurozone

- Oct Euro-Zone Consumer Confidence (20-23 Oct)
- 2011 Euro-Zone Govt Debt/GDP Ratio (22 Oct)
- Sep Euro-Zone M3 YoY (25 Oct)
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IIFL, IIFL Centre, Kamala City, Senapati Bapat Marg, Lower Parel (W), Mumbai 400 013

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