

Godrej Consumer Products

BSE SENSEX 17,602	S&P CNX 5,337	CMP: INR605	TP: INR570	Neutral								
Bloomberg Equity Shares (m)	GCPL IN 340.3	Year	Net Sales	PAT	EPS	EPS	P/E	P/BV	RoE	RoCE	EV/	EV/
52-Week Range (INR)	658/370	End	(INR m)	(INR m)	(INR)	Gr. (%)	(X)	(X)	(%)	(%)	Sales	EBITDA
1,6,12 Rel. Perf. (%)	5/37/42	03/11A	36,763	4,736	14.6	32.8	-	-	27.5	18.4	-	-
M.Cap. (INR b)	205.9	03/12A	48,509	5,266	16.3	11.2	37.2	9.4	25.2	20.4	4.5	25.4
M.Cap. (USD b)	3.7	03/13E	63,147	7,446	21.9	34.5	27.6	6.4	23.3	22.7	3.6	20.0
		03/14E	78,327	9,076	26.7	21.9	22.7	5.6	24.5	24.5	2.9	16.3

Godrej Consumer's (GCPL) 1QFY13 consolidated results are in-line with Sales up 27% at INR13.8b (est INR13.2b), EBITDA up 39% at INR2b (est INR2b), and Adj PAT up 30% at INR1.3b (est INR1.3b).

- India business reported sales of INR7.8b, up 23% YoY. Gross profit at INR2.6b increased 25%. EBITDA margins remained flat YoY at 14.9%. Adj PAT increased only 5% on account of INR110m forex loss and steep increase in interest cost from INR5m to INR30m.
- International business sales grew 31% YoY to INR6.1b, and EBITDA grew 90% to INR889m. EBITDA margin expanded ~200bp YoY to 14.5%.
- Africa (10% of Cons Sales, includes Rapidol, Kinky, Tura and Darling Group) reported sales of INR1.44b and EBITDA of INR274m (INR247m in 4QFY12), with EBITDA margin of 19%. The company has received pioneer tax status in Nigeria resulting in a tax reversal of INR165m (INR80m after minority interest).
- Latin America (6% of sales) sales grew 94% YoY to INR1.1b led by new product launches and Chile business consolidation. EBITDA margin expanded ~120p YoY due to strong sales on the back of new launches. The company incurred INR60m exceptional severance cost and stamp duty charges.
- The stock trades at 27.6x FY13E and 22.7x FY14E (current estimates). Maintain **Neutral**.

Y/E March	FY12				FY13				FY12	FY13E	(INR Million)	
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			MOSL 1QE	Var. (%)
Net Sales	9,978	11,860	13,441	13,230	13,886	16,250	17,000	16,010	48,509	63,147	13,250	4.8%
YoY Change (%)	39.6	23.3	35.9	32.4	39.2	37.0	26.5	21.0	32.0	30.2	32.8	
EBITDA	1,427	2,088	2,653	2,481	1,988	2,958	3,230	3,122	8,607	11,298	2,041	-2.6%
Margins (%)	14.3	17.6	19.7	18.8	14.3	18.2	19.0	19.5	17.7	17.9	15.4	
YoY Growth (%)	11.5	25.1	60.1	39.6	39.3	41.6	21.8	25.8	35.4	31.3	42.9	
Depreciation	159	159	171	155	199	210	230	248	644	887	200	-0.5%
Interest	111	241	287	194	164	250	270	362	658	1,046	240	-31.6%
Other Income	132	220	248	203	181	280	250	378	672	1,089	280	-35.3%
Forex gain / (loss)	24	-166	-55	-8	-176	0	0	176	-205	0	0	
PBT	1,314	1,742	2,388	2,327	1,630	2,778	2,980	3,066	7,771	10,454	1,881	-13.3%
Tax	312	432	555	547	112	644	691	980	2,261	2,428	436	
Rate (%)	23.8	24.8	23.2	23.5	6.9	23.2	23.2	32.0	29.1	23.2	23.2	
Minority Int	0	33	162	50	213	144	144	78	245	579	144.0	48.1%
Adj PAT	1,002	1,277	1,671	1,730	1,305	1,989	2,145	2,008	5,266	7,446	1,300	0.3%
YoY Change (%)	10.3	-2.0	40.7	22.1	30.2	55.8	28.3	16.0	11.2	41.4	29.8	

E: MOSL Estimates

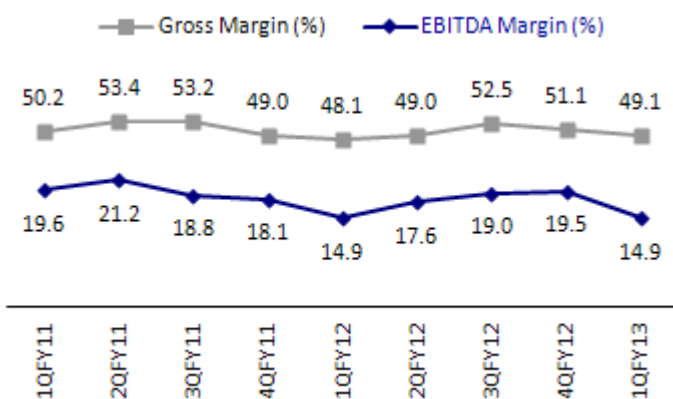
1QFY13 results: Consolidated sales growth marginally above est; EBITDA margins flat

- Consolidated sales increased 39% to INR13.8b (est INR13.2b) led by 27% sales growth in Domestic HI business, 42% growth in Toilet soaps, 40% growth in Megasari and 94% growth in Latin America.
- Gross margin expanded 60bp YoY to 52.2% while EBIDTA margin remained flat YoY at 14.3% mainly due to 130bp increase in staff costs.
- EBITDA grew 39.3% to INR1.9b; PBT increased 24% despite 48% decline in interest.
- GCPL received INR165m (INR80m after minority interest) as a result of zero tax status to its Nigeria business. It will enjoy this status for 5 years.
- It booked MTM forex losses of INR176m (consolidated) and INR110m (standalone). Minority interest increased from INR50m in 4QFY12 to INR213m.

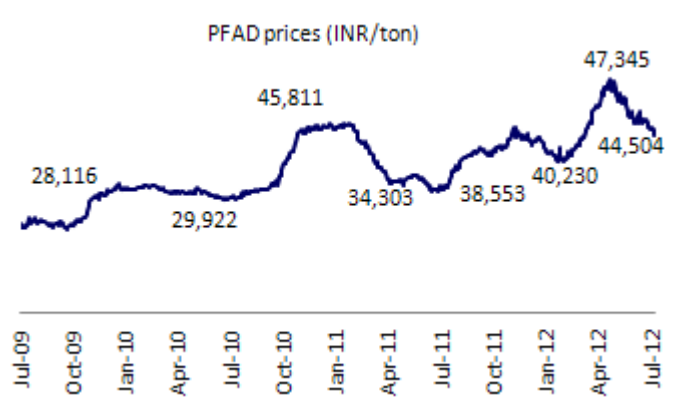
India business (~57% of Cons Sales): Sales up 23%; Soaps growth exceptional at 42%; HI growth impressive 27%; Margins flat

- **India business** reported sales of INR7.8b, up 23% YoY. Gross profit at INR2.6b increased 25%. EBITDA Margins remained flat YoY at 14.9%. Adj PAT increased 5% on account of INR110m Forex loss and steep increase in interest cost from INR5mn to INR30mn.
- **Household insecticides (HI)** maintained strong growth, with sales up 27% YoY which was far ahead of category growth rates, 9th consecutive quarter of 25%+ sales growth. New media campaigns of Good Knight and HIT and distribution gains due to GCPL rural network continued to power sales growth.
- **Toilet Soaps** sales grew by an impressive 42% YoY with 24% volume growth. Category sales grew 21% with just 5% volume growth. GCPL launched Rosewater and Almonds variants under Godrej No.1.
- **Hair color** sales growth was 5% led by Godrej Expert powdered hair colors and Nupur Mehendi.

Standalone gross margins and EBIDTA margins flat YoY



PFAD Prices drop QoQ, however remain firm YoY



Source: Company, MOSL

International business (~43% of Cons Sales): Healthy growths of 31%, margins expand in Africa and Latam,

- International business sales grew 31% YoY to INR6.1b, and EBITDA grew 90% to INR889m. EBITDA margin expanded ~200bp YoY to 14.5%.
- **Megasari** sales (20% of Cons) grew 40% YoY to INR2.7b, and EBITDA grew 48% to INR488m, led by 100bp YoY margin expansion, third consecutive quarter of margin expansion. New products like HIT magic paper, HIT extra power electric and MITU range of baby products continue to do well.
- **Africa (10% of Cons Sales, includes Rapidol, Kinky, Tura and Darling Group)** reported sales of INR1.44b and EBITDA of INR274m (INR247m in 4QFY12), with EBITDA margin of 19%. The company has received pioneer tax status for Nigeria resulting in a tax reversal of INR165m (INR80m after minority interest).
- **Latin America sales (6% of total)** grew 94% YoY to INR1.1b led by new product launches and Chile business consolidation. EBITDA margin expanded ~120bp YoY due to strong sales and new launches. The company incurred INR60m exceptional severance cost and stamp duty charges.

Margins improve across regions; Darling takes Africa margins towards sustainable levels

	1QFY11	2QFY11	3QFY11	4QFY11	1QFY12	2QFY12	3QFY12	4QFY12	1QFY13
Net Sales (INR m)									
Indian Subcontinent	4,590	6,260	6,450	6,543	6,256	7,760	7,790	7,990	7,777
GCPL (Standalone)	3,174	3,120	3,421	3,033	3,714	3,711	3,717	3,497	4,523
Godrej Home Products	1,416	3,000	3,029	3,510	2,542	3,870	3,938	4,493	3,254
GHPL SL and Bangladesh		140	60			179	135		
International	1,860	3,370	3,350	3,430	3,715	4,190	5,660	5,240	6,110
Africa	340	440	530	450	430	650	1,860	1,280	1,440
Latin America	120	590	630	640	560	650	820	820	1,080
Megasari	830	1,820	1,890	1,950	1,940	2,300	2,500	2,550	2,710
Keyline	570	480	300	390	670	530	430	480	730
Middle East		40			115	60	50	110	150
Total	6,450	9,630	9,800	9,973	9,971	11,950	13,450	13,230	13,887
EBITDA (INR m)									
Indian Subcontinent	879	1,158	1,197	1,189	958	1,367	1,462	1,522	1,100
GCPL (Standalone)	621	618	624	NA	NA	NA	NA	NA	NA
Godrej Home Products	258	540	573	NA	NA	NA	NA	NA	NA
International	312	532	479	570	470	722	1,191	959	889
Africa	60	60	50	50	40	169	577	247	274
Latin America	8	40	60	90	10	48	74	134	32
Megasari	174	382	359	390	330	446	515	528	488
Keyline	70	50	10	40	90	58	26	50	95
Total	1,191	1,690	1,676	1,778	1,427	2,088	2,653	2,481	1,988
EBITDA Margin (%)									
Indian Subcontinent	19.1	18.5	18.6	18.2	15.3	17.6	18.8	19.0	14.1
GCPL (Standalone)	19.6	19.8	18.2	NA	NA	NA	NA	NA	NA
Godrej Home Products	18.2	18.0	18.9	NA	NA	NA	NA	NA	NA
International	16.8	15.8	14.3	16.6	12.6	17.2	21.0	18.3	14.5
Africa	17.6	13.6	9.4	11.1	9.3	26.0	31.0	19.3	19.0
Latin America	7.0	6.8	9.5	14.1	1.8	7.4	9.0	16.3	3.0
Megasari	21.0	21.0	19.0	20.0	17.0	19.4	20.6	20.7	18.0
Keyline	12.3	10.4	3.3	10.3	13.4	11.0	6.0	10.5	13.0
Total	18.5	17.5	17.1	17.8	14.3	17.5	19.7	18.8	14.3

Source: Company, MOSL

- **Keyline** sales increased 17% to INR730m and EBITDA grew 5% to INR95m. Sales growth was led by Cuticura and Touch of Silver brands. GCPL launched Cuticura 8 hours hand sanitizer. EBITDA margin contracted 40bp YoY.

Valuation and view: Positive on HI business; sceptical on Toilet soaps growth and margins; Neutral

- We remain positive on the rapidly growing household insecticides business which has in the last two years consistently outperformed market growth. We believe that profit margins in toilet soaps in the coming quarters to remain under check due to firm PFAD prices.
- While the mgt intent to avoid big ticket acquisitions is positive, we note that GCPL will have to pay INR3-4b every year to acquire remaining geographies of Darling Group. Given the already laid out roadmap for this, incremental acquisitions can impact the cash flows.
- The stock trades at 27.6x FY13E and 22.7x FY14E (current estimates). Maintain **Neutral**.

Godrej Consumer Products: an investment profile

Company description

GCPL is the second largest player in the INR90b Toilet Soap category with a market share of ~10%. Godrej Consumer Products Ltd. is a market leader in INR10b hair dye/color segment with a market share of approximately 35%. The company's international business now constitutes 36% of consolidated revenues.

Key investment arguments

- Market leadership and strong 20%+ growth in the domestic household insecticides business is the key growth driver for the company
- GCPL has a low tax base with 65% of its sales coming from excise free and tax free zones.

Key investment risks

- Increasing contribution of acquisitions will likely increase margin volatility for GCPL in the future
- Aggressive competition in the soap segments may lead to pricing pressures which may negatively affect the margins.

Recent developments

- GCPL launched AER air fresheners during the quarter. The product has home and car variants.
- The company has received pioneer tax status in Nigeria resulting in a tax reversal of INR165m (INR80m after minority interest).

Valuation and view

- We revise our EPS estimates upwards by 2-3% for FY12 and FY13 at INR17.2 and INR21.9.
- We believe that the risk reward ratio is unfavorable at 27.6x FY13E and 22.7x FY14E earnings. We maintain **Neutral**.

Sector view

- We have a cautious view on the sector on back of the inflationary pressure which might impact volumes as well as profit margins of companies.
- Companies with low competitive pressures and broad product portfolios will be able to better withstand any slowdown in a particular segment.
- Longer term prospects bright, given rising incomes and low penetration.

Comparative valuations

		GCPL	Dabur	Marico
P/E (x)	FY13E	27.6	27.5	27.9
	FY14E	22.7	23.0	22.4
P/BV (x)	FY13E	6.4	9.7	6.0
	FY14E	5.6	8.0	4.9
EV/Sales (x)	FY13E	3.6	3.4	2.6
	FY14E	2.9	3.0	2.2
EV/EBITDA (x)	FY13E	20.0	20.5	19.5
	FY14E	16.3	17.1	15.4

EPS: MOSL forecast v/s consensus (INR)

	MOSL Forecast	Consensus Forecast	Variation (%)
FY13	21.9	22.3	-1.8
FY14	26.7	27.2	-1.8

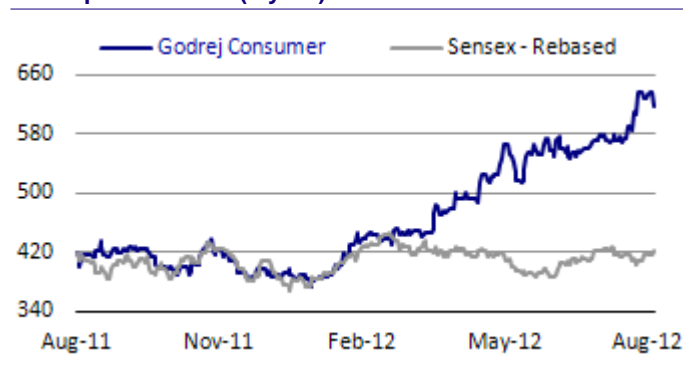
Target price and recommendation

Current Price (INR)	Target Price (INR)	Upside (%)	Reco.
605	570	-5.8	Neutral

Shareholding pattern (%)

	Jun-12	Mar-12	Jun-11
Promoter	64.0	64.0	67.3
Domestic Inst	1.0	1.8	2.2
Foreign	27.2	25.3	19.3
Others	7.8	9.0	11.2

Stock performance (1 year)



Financials and Valuation

Income Statement (Consolidated)					Ratios				
(INR Million)									
Y/E March	2011	2012	2013E	2014E	Y/E March	2011	2012	2013E	2014E
Net Sales	36,763	48,509	63,147	78,327	Basic (INR)				
Change (%)	80.1	32.0	30.2	24.0	EPS	14.6	16.3	21.9	26.7
Cost of Goods Sold	17,072	23,185	29,962	37,018	Cash EPS	16.2	18.3	24.5	29.7
Gross Profit	19,691	25,324	33,185	41,309	BV/Share	53.3	64.5	94.0	109.0
Margin (%)	53.6	52.2	52.6	52.7	DPS	5.0	6.0	8.0	10.0
Total Expenditure	30,405	39,903	51,849	64,378	Payout (%)	34.4	36.9	36.6	37.5
EBITDA	6,358	8,607	11,298	13,949	Valuation (x)				
Change (%)	55.7	35.4	31.3	23.5	P/E		37.2	27.6	22.7
Margin (%)	17.3	17.7	17.9	17.8	Cash P/E		33.1	24.7	20.3
Depreciation	499	644	887	1,044	EV/Sales		4.5	3.6	2.9
Int. and Fin. Charges	436	658	1,046	1,114	EV/EBITDA		25.4	20.0	16.3
Interest Income	643	672	430	596	P/BV		9.4	6.4	5.6
Other Income-rec.	0	0	660	713	Dividend Yield		1.0	1.3	1.7
forex gain/(loss)	-52.8	205	0	0	Return Ratios (%)				
PBT	6,118	7,771	10,454	13,102	RoE	27.5	25.2	23.3	24.5
Change (%)	45.7	27.0	34.5	25.3	RoCE	18.4	20.4	22.7	24.5
Margin (%)	16.6	16.0	16.6	16.7	Working Capital Ratios				
Tax	1,382	2,261	2,352	3,079	Debtor (Days)	38	30	30	30
Deferred Tax	0	0	-76	-91	Asset Turnover (x)	2.4	2.5	2.6	2.7
Tax Rate (%)	22.6	29.1	23.2	24.2	Leverage Ratio				
PAT	4,736	5,511	8,025	9,932	Debt/Equity (x)	1.2	1.1	0.7	0.7
Change (%)	39.5	16.4	45.6	23.8	Cash Flow Statement				
Margin (%)	12.9	11.4	12.7	12.7	(INR Million)				
minority interest	0.0	245	579	856	Y/E March	2011	2012	2013E	2014E
Group Adjusted PAT	4,736	5,266	7,446	9,076	OP/(Loss) before Tax	6,358	8,607	11,298	13,949
Non-rec. (Exp.)/Income	411	2,002	0	0	Other Income	643	672	1,089	1,310
Reported PAT	5,148	7,267	8,025	9,932	Interest Paid	436	658	1,046	1,114
					Direct Taxes Paid	1,382	2,261	2,352	3,079
					(Inc)/Dec in WC	3,605	429	1,214	1,365
					CF from Operations	1,578	5,931	7,774	9,701
					Extraordinary Items	411	2,002	0	0
					Inc in FA	15,144	4,196	6,215	5,225
					Pur of Investments	-670	0	0	0
					Goodwill	12,285	5,040	3,000	2,000
					CF from Investments	-26,348	-7,235	-9,215	-7,225
					Issue of Shares	4,976	337	6,850	0
					Inc in Debt	19,685	3,746	-550	1,500
					Dividend Paid	1,966	2,272	3,185	3,982
					Other Item	1,293	-1,466		
					CF from Fin. Activity	23,988	345	3,115	-2,482
					Inc/Dec of Cash	-782	-958	1,674	-5
					Add: Beginning Balance	3,052	2,269	1,311	2,985
					Closing Balance	2,269	1,311	2,985	2,979

Balance Sheet				
(INR Million)				
Y/E March	2011	2012	2013E	2014E
Share Capital	324	324	340	340
Reserves	16,928	20,561	31,656	36,750
Minority Int		591	1,170	2,027
Networth	17,252	20,885	31,996	37,090
Loans	20,054	23,800	23,250	24,750
Deferred Liability	14	74	150	241
Capital Employed	37,320	45,350	56,567	64,108
Gross Block	19,147	23,347	29,562	34,787
Less: Accum. Deprn.	3,775	4,452	5,339	6,382
Net Fixed Assets	15,373	18,896	24,224	28,405
Capital WIP	154	150	150	150
Goodwill	15,404	20,444	23,444	25,444
Currents Assets	15,062	16,776	22,266	26,334
Inventory	4,394	6,264	8,131	10,086
Account Receivables	3,840	3,998	5,190	6,438
Cash and Bank Balance	2,269	1,311	2,985	2,979
Loans and Advances	4,437	4,703	5,360	6,110
Other Current Assets	122	500	600	720
Curr. Liab. & Prov.	8,673	10,916	13,518	16,225
Account Payables	5,499	7,424	9,556	11,780
Other Liabilities	3,084	3,466	3,926	4,399
Provisions	89	26	35	46
Net Current Assets	6,389	5,860	8,748	10,108
Net Assets	37,320	45,350	56,567	64,108

E: MOSL Estimates

N O T E S

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Godrej Consumer Products

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