RELIGARE | INSTITUTIONAL RESEARCH
Values that bind

Company Update
INDIA
CONSUMER STAPLES

18 December 2012

HOLD
TP: INR 660.00
▼ 8.2%

Godrej Consumer

GCPL IN

All is well… but valuations rich

As per our recent interaction with the GCPL management, the company continues to see strong growth across its Household Insecticides, Soaps and International businesses. In our view, GCPL could see some gross margin improvement in H2FY13, but higher brand investment coupled with product launches is likely to cap EBITDA margins. We marginally pare our FY13 earnings estimate on account of higher A&P and maintain HOLD given rich valuations at 27.1x/22.8x FY14E/FY15E earnings.

- **Domestic HI going strong, new launches to drive growth in Soaps and Hair Colour:** GCPL's domestic Household Insecticides business continues to grow ahead of the market with Q3 likely to see a further boost due to the spread of dengue and malaria. The company has re-launched its *Cinthol* range of products which is likely to aid growth and product mix improvement in the Soaps segment. Management is also confident of success in its new range of Hair Colour products (Crème) with growth likely to be in the mid-teens.
- **International business on strong footing led by Megasari and Africa:** Megasari is likely to report strong growth in H2FY13 as well driven by an increase in distribution and the success of new launches. Management is confident of maintaining margins in the business. GCLP's Arica business will see the integration of Kenya operations in the current quarter with margins likely to be seasonally better in H2.
- **Higher A&P to partly negate short-term gross margin improvement:** The company is likely to see a marked improvement in gross margins on account of lower palm oil prices; however, some cost benefits could be partly negated by higher A&P spends.
- **Maintain HOLD with Sep'13 TP of Rs 660:** We maintain HOLD on GCPL with a September'13 TP of Rs 660. We recommend that investors wait for a better entry point (~Rs 600 levels).

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PRICE CLOSE (14 Dec 12)
INR 719.05

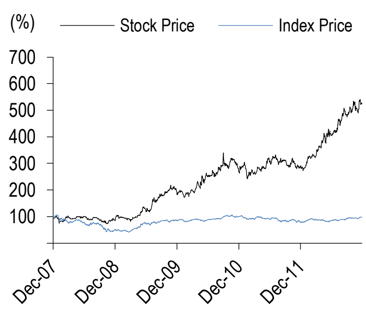
MARKET CAP
INR 2,44,693 mln
USD 4,491 mln

SHARES O/S
340.3 mln

FREE FLOAT
32.7%

3M AVG DAILY VOLUME./VALUE
0.2 mln/ USD 2.8 mln

52 WK HIGH	52 WK LOW
INR 739.55	INR 372.25



Financial Highlights

Y/E 31 Mar	FY11A	FY12A	FY13E	FY14E	FY15E
Revenue (INR mln)	36,430	48,662	62,630	74,592	86,739
EBITDA (INR mln)	6,407	8,554	10,763	13,883	16,840
Adjusted net profit (INR mln)	4,816	5,927	7,584	9,481	11,262
Adjusted EPS (INR)	16.1	17.4	21.2	26.6	31.5
Adjusted EPS growth (%)	41.8	8.4	22.0	25.0	18.8
DPS (INR)	4.0	5.1	6.2	7.7	9.2
ROIC (%)	22.6	16.6	18.5	19.7	21.3
Adjusted ROAE (%)	35.9	26.1	22.4	22.4	23.3
Adjusted P/E (x)	22.7	27.6	33.9	27.1	22.8
EV/EBITDA (x)	21.2	20.3	24.6	19.1	15.6
P/BV (x)	6.9	5.8	6.5	5.7	5.0

Source: Company, Bloomberg, RCML Research

Management interaction takeaways

Domestic business

Household Insecticides (HI)

Management expects to gain market share in HI and remain ahead of category growth rates

The HI segment could grow at a faster rate in H2FY13 due to the spread of diseases like dengue and malaria. The company has seen strong traction in the business and expects Q3 growth rates to accelerate. Management is confident of gaining market share and expects growth to remain higher than category rates. The company has 60-65% of annual HI sales in H2.

GCPL has seen higher growth in urban India which is dominated by electric and aerosol products whereas rural India continues to be led by coils (47-48% of the HI category is dominated by coils, with lower penetration levels of ~20% in rural India offering potential for growth).

Competitive intensity in the category remains soft. GCPL was able to take a 3-4% price hike in the segment at the end of September'12 to pass on an increase in packaging costs due to higher crude prices. The company has hiked prices in the segment after 2-2.5 years.

Soaps

Re-launch of *Cinthol* to drive mix-led growth in soaps

GCPL has seen a positive response to its media campaign for the re-launch of *Cinthol*. Management expects mix-led growth in soaps as consumers would uptrade on the back of the Cinthol re-launch. Although we expect GCPL's volumes to continue to grow ahead of the category (in low single digits), the pace of growth could moderate in H2FY13 as it is likely to be more price and mix-led rather than volume-led (since the base effect also comes into play). The company has effectively taken a 10-12% price hike in the Cinthol brand on the back of its re-launch, though pricing of the base variant remains unchanged.

The soaps category has seen an increase in promotion activity on the back of softer palm oil prices, with most players coming out with discounted offerings/increased promotional activity. Management expects the full impact of the fall in palm oil prices from Q4 onwards, although there could be a partial impact of the same in Q3. The company has started going long on palm oil and has inventory till Q1FY13, although management is of the view that there could be some correction in prices in the short term (~10-15% by mid-2013). We expect gross margins for the soaps business to expand sequentially as well as YoY in Q3.

Liquid detergents have been doing well in the seasonally strong quarter of Q3 which should help boost domestic margins given the better margin profile in this category.

Hair Colour

Favourable response to new crème hair colour

The management has seen a favourable response to its media campaign for new launches in the category, with the modern trade crème kit falling in short supply, beating initial management estimates. GCPL has launched the entry level crème kit at Rs 30 with a view to driving upgrades from its powder users (Rs 15 per pack) as well as targeting first time users. The management does not expect a big switch in users away from the market leader given that Garnier has also launched a single-use hair colour sachet at Rs 59.

However, we expect growth rates in the hair colour segment to accelerate in H2FY13 on the back of the new product launches, led by mix improvement as well as higher volume growth. The hair colour segment is likely to see 15% YoY growth in H2FY13 as compared to 5% and 10% growth rates in Q1 and Q2.

Air Freshener

Entry into Rs 3bn air and car freshener market with launch of *Aer* range

The launch of the *Aer* range of air fresheners has met with a good response as the company tries to position itself in the Rs 3bn air and car freshener market. GCPL is looking to be a dominant force in the segment which is largely populated by unorganised players, with *Ambipur* being the only organised play.

International business

Megasari

Q3 to be another strong quarter of 25%+ growth for Megasari

Megasari continues to do well and we expect Q3 to be another strong quarter of 25%+ growth. The company's new product launches have garnered a favourable response with management confident of growing the business led by an increase in penetration levels (most of the business is currently centered on Java and Sumatra, with management targeting other nearby islands for future growth). We expect margins to hold up at ~20% levels.

Africa

The Darling business will see the integration of Kenya operations (~20% of total Darling turnover) from Q3 onwards (Nov 1, 2012), with the third and final phase coming through after 12-18 months. Q3 margins for the Africa business are likely to improve given that festive season sales were strong with premium offerings doing well. We expect the company to maintain 20% EBITDA margins in the Africa business. Integration of Kinky is on track with the company expecting some margin improvement in the business; however this won't move the needle much given the low scale of the business. Rapidol growth rates remain healthy and in line with historic rates.

Latin America and Europe

The LatAm business remains on track with sequential margin expansion likely in Q3 as the company sees better mix-led growth. Keyline continues to report strong 8-10% growth in constant currency led by new product launches and innovation. Management aims to raise A&P which could limit margins. The company has launched *Cuticura* 8-hour's sanitizer in the quarter, which has been well accepted in the market.

Outlook

We expect the organic business to report 17-18% YoY growth in FY13

- We expect the organic business to report 17-18% YoY growth in FY13 with margins for the fiscal likely to see some impact on account of higher A&P.
- The company has paid for Phase 2 of the Darling acquisition while repaying some amount of existing debt, which could keep the D/E ratio at 0.55x.
- We do not expect significant forex losses in Q3 given that the INR-USD has been more or less stable on a QoQ basis.

Per Share Data

Y/E 31 Mar (INR)	FY11A	FY12A	FY13E	FY14E	FY15E
Reported EPS	16.1	21.4	21.2	26.6	31.5
Adjusted EPS	16.1	17.4	21.2	26.6	31.5
DPS	4.0	5.1	6.2	7.7	9.2
BVPS	53.3	82.7	110.6	126.3	144.9

Valuation Ratios

Y/E 31 Mar (x)	FY11A	FY12A	FY13E	FY14E	FY15E
EV/Sales	3.7	3.6	4.2	3.6	3.0
EV/EBITDA	21.2	20.3	24.6	19.1	15.6
Adjusted P/E	22.7	27.6	33.9	27.1	22.8
P/BV	6.9	5.8	6.5	5.7	5.0

Financial Ratios

Y/E 31 Mar	FY11A	FY12A	FY13E	FY14E	FY15E
Profitability & Return Ratios (%)					
EBITDA margin	17.6	17.6	17.2	18.6	19.4
EBIT margin	16.2	16.3	15.9	17.3	18.1
Adjusted profit margin	13.2	12.2	12.1	12.7	13.0
Adjusted ROAE	35.9	26.1	22.4	22.4	23.3
ROCE	19.7	14.8	15.6	16.4	17.5
YoY Growth (%)					
Revenue	78.5	33.6	28.7	19.1	16.3
EBITDA	57.1	33.5	25.8	29.0	21.3
Adjusted EPS	41.8	8.4	22.0	25.0	18.8
Invested capital	465.7	9.2	24.7	12.2	7.3
Working Capital & Liquidity Ratios					
Receivables (days)	25	32	31	33	33
Inventory (days)	73	96	94	86	86
Payables (days)	84	106	109	107	110
Current ratio (x)	1.7	1.5	1.6	1.6	1.6
Quick ratio (x)	1.2	1.0	1.2	1.1	1.2
Turnover & Leverage Ratios (x)					
Gross asset turnover	3.1	2.5	2.6	2.6	2.6
Total asset turnover	1.2	0.9	0.9	0.9	1.0
Net interest coverage ratio	11.4	12.0	11.9	14.9	17.8
Adjusted debt/equity	1.2	0.6	0.4	0.4	0.3

DuPont Analysis

Y/E 31 Mar (%)	FY11A	FY12A	FY13E	FY14E	FY15E
Tax burden (Net income/PBT)	78.7	60.6	75.1	72.4	70.7
Interest burden (PBT/EBIT)	103.5	123.6	101.5	101.3	101.3
EBIT margin (EBIT/Revenue)	16.2	16.3	15.9	17.3	18.1
Asset turnover (Revenue/Avg TA)	118.6	91.7	92.9	94.0	96.9
Leverage (Avg TA/Avg equities)	229.2	233.8	199.3	187.8	185.0
Adjusted ROAE	35.9	26.1	22.4	22.4	23.3

Income Statement

Y/E 31 Mar (INR mln)	FY11A	FY12A	FY13E	FY14E	FY15E
Total revenue	**36,430**	**48,662**	**62,630**	**74,592**	**86,739**
EBITDA	6,407	8,554	10,763	13,883	16,840
EBIT	5,908	7,910	9,954	12,921	15,731
Net interest income/(expenses)	(519)	(658)	(839)	(865)	(882)
Other income/(expenses)	729	520	990	1,036	1,087
Exceptional items	0	2,002	0	0	0
EBT	6,118	9,774	10,105	13,092	15,936
Income taxes	(1,302)	(2,261)	(2,021)	(3,011)	(3,984)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	0	(245)	(500)	(600)	(690)
Reported net profit	**4,816**	**7,268**	**7,584**	**9,481**	**11,262**
Adjustments	0	(1,341)	0	0	0
Adjusted net profit	**4,816**	**5,927**	**7,584**	**9,481**	**11,262**

Balance Sheet

Y/E 31 Mar (INR mln)	FY11A	FY12A	FY13E	FY14E	FY15E
Accounts payables	8,448	14,755	16,301	19,414	22,576
Other current liabilities	0	0	0	0	0
Provisions	225	743	808	1,047	1,275
Debt funds	20,054	15,640	16,640	16,640	16,640
Other liabilities	0	882	1,382	1,982	2,672
Equity capital	324	340	357	357	357
Reserves & surplus	16,928	27,812	39,123	44,721	51,371
Shareholders' fund	17,252	28,152	39,480	45,078	51,728
Total liabilities and equities	**45,979**	**60,172**	**74,612**	**84,163**	**94,892**
Cash and cash eq.	2,269	6,399	9,791	10,172	13,599
Accounts receivables	3,840	4,725	6,082	7,243	8,423
Inventories	4,394	7,839	7,467	8,691	9,953
Other current assets	4,559	3,769	4,815	5,711	6,621
Investments	0	0	0	0	0
Net fixed assets	15,373	15,464	21,481	24,369	28,321
CWIP	154	376	376	376	376
Intangible assets	15,404	21,596	24,596	27,596	27,596
Deferred tax assets, net	(14)	5	5	5	5
Other assets	0	0	0	0	0
Total assets	**45,979**	**60,173**	**74,612**	**84,163**	**94,892**

Cash Flow Statement

Y/E 31 Mar (INR mln)	FY11A	FY12A	FY13E	FY14E	FY15E
Net income + Depreciation	5,315	7,912	8,393	10,443	12,371
Interest expenses	572	863	839	865	882
Non-cash adjustments	0	0	0	0	0
Changes in working capital	(3,732)	2,241	(423)	70	37
Other operating cash flows	(94)	(94)	(336)	(265)	(191)
Cash flow from operations	**2,061**	**10,923**	**8,474**	**11,114**	**13,099**
Capital expenditures	(13,880)	(1,565)	(6,827)	(3,850)	(5,061)
Change in investments	(9,649)	(7,506)	(3,000)	(3,000)	0
Other investing cash flows	(114)	569	0	0	0
Cash flow from investing	**(23,643)**	**(8,502)**	**(9,827)**	**(6,850)**	**(5,061)**
Equities issued	5,228	6,847	6,850	0	0
Debt raised/repaid	17,656	(5,592)	1,000	0	0
Interest expenses	(519)	(658)	(839)	(865)	(882)
Dividends paid	(1,966)	(2,178)	(3,105)	(3,882)	(4,612)
Other financing cash flows	401	1,509	839	865	882
Cash flow from financing	**22,375**	**(72)**	**4,745**	**(3,882)**	**(4,612)**
Changes in cash and cash eq	**793**	**2,349**	**3,392**	**382**	**3,426**
Closing cash and cash eq	**2,269**	**6,399**	**9,791**	**10,172**	**13,599**

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