

Godrej Consumer Products

ADD

Results in line; up our target price on rollover

CMP: Rs566

Target Price: Rs583

Results were in line with our estimates on all counts with a 31% yoy growth in revenues at Rs13.2bn (vs. estimate of Rs13.5bn), 42% growth in operating profit at Rs2.5bn (estimate Rs2.5bn), 160bps expansion in operating margins to 18.9%, and a 21% rise in APAT to Rs1.7bn (estimate Rs1.7bn). We have revised our FY13 EPS estimates by 3.6% to Rs22.6 and introduced FY14 estimates at Rs26.5. We have rolled over our valuations to FY14 to arrive at a target of Rs583. Maintain Add.

Growth driven by both domestic and international businesses: Growth in revenues was driven by a 20% jump in the domestic business (to Rs8.0bn) and around 51% growth in the international business. Operating profit increased 42% yoy to Rs2.5bn helped by a 240bps decline in input costs and 200bps drop in other expenses. However, a 200bps rise in employee expenses and 90bps increase in A&P spends partially hampered operational performance. Consequently, operating margin expanded 160bps to 18.9% (in line with estimated 18.8%).

Revenue growth across categories: Growth in domestic business was driven by – a 28% growth in home insecticides (vs. market growth of 9%), a 30% growth in soaps (vs. 20%), and a 13% jump in hair color (vs. 22%). Though soaps and HI performance was good, hair color continues to lag.

Soap business surprised positively: We were surprised by strong performance in domestic soaps—17% volume growth (vs. market growth of 45%)—and attribute it to lower growth in the base quarter, calibrated price hikes, new launches and re-launches, and higher advertising and promotional activities.

Revised estimates, maintain rating: We have revised our FY13 EPS estimates by about 4% and remain positive on GCPL and believe it is in a sweet spot to leverage recent acquisitions. Its strategy to tap new opportunities (domestic and international) will boost its future operational performance. We arrive at our new target of Rs583 (from Rs458) by assigning 22x P/E (unchanged) to our new FY14 earnings.

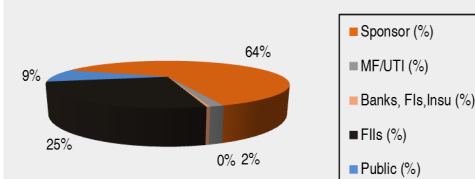
- Corporate development
- Earnings estimate change
- Target price change
- Rating change

KEY DATA

| | |
|-------------------|---------------------|
| Bloomberg | GCPL IN |
| Reuters | GOCP.BO |
| 52-wk H/L (Rs) | 569.0/355.0 |
| 6-m avg trd value | US\$1.9mn |
| Market cap | Rs192.5bn/US\$3.6bn |
| Shares o/s | 340.3mn |
| Face value | Re1 |

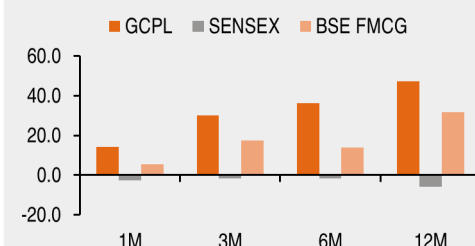
Source: Bloomberg

SHAREHOLDING (%)



Source: Ace equity

RELATIVE PRICE PERFORMANCE



Source: Bloomberg

KEY FINANCIALS

| Y/E 31 March | 2011 | 2012P | 2013E | 2014E |
|-------------------|--------|--------|--------|--------|
| Revenue | 36,461 | 48,662 | 60,748 | 69,532 |
| EBITDA | 6,256 | 8,759 | 11,291 | 13,099 |
| EBITDA margin (%) | 17.2 | 18.0 | 18.6 | 18.8 |
| PAT | 5,147 | 7,267 | 7,821 | 9,025 |
| FDEPS (Rs) | 14.9 | 16.1 | 22.6 | 26.5 |
| % growth | 34.7 | 8.1 | 40.4 | 17.5 |
| P/E (x) | 38.0 | 35.2 | 25.1 | 21.3 |
| RoCE avg (%) | 15.4 | 18.5 | 24.0 | 23.0 |

Source: Company, BRICS Research

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Home insecticide business performance was in line: As mentioned in our previous note “Growth buzzing due to mosquito repellents” – we were expecting high growth for GOPL’s home insecticide in Q4 and the growth was 3x vs. industry.

Hair color business yet to perform: This recorded 13% growth – lower than the category growth of 22%. Higher competition continues to restrict growth.

International business performance was strong: It recorded 51% sales growth and EBITDA margins were impressive across geographies.

Exhibit 1: International business performance was impressive during Q4 (Rs mn)

| | Asia | Africa | Latin America | UK |
|----------------|---------|---------|---------------|-----|
| Revenues | 2550 | 1280 | 820 | 480 |
| Revenue gr | 30% | 184% | 28% | 23% |
| Revenue Contri | 50% | 25% | 16% | 9% |
| EBITDA | 528 | 247 | 134 | 50 |
| EBITDA Gr | 60% | 394% | 49% | NA |
| EBITDA Mrgn | 20.70% | 19.30% | 16.30% | 11% |
| Mrgn Exp | 410 bps | 820 bps | 220 bps | NA |

Source: Company, BRICS Research

Exhibit 2: Q4 results came in line with our estimates (Rs mn)

| | March - 12 Actual | March - 12 Estimate | Variation (%) | Mar-11 | yoy (%) | Dec-11 | qoq (%) |
|-----------|----------------------|------------------------|------------------|--------|---------|--------|----------|
| Revenue | 13,249 | 13,476 | -1.7% | 10,145 | 30.6% | 13,509 | -1.9% |
| EBITDA | 2,500 | 2,536 | -1.4% | 1,755 | 42.4% | 2,721 | -8.1% |
| OPM(%) | 18.9% | 18.8% | 10 bps | 17.3% | 160 bps | 20.1% | -130 bps |
| APAT | 1,684 | 1,698 | -0.8% | 1,417 | 18.9% | 1,671 | 0.8% |
| EPS (Rs.) | 4.9 | 5.2 | -5.7% | 4.4 | 13.0% | 5.7 | -12.6% |

Source: BRICS Research

Exhibit 3: Revision in estimates (Rs mn)

| | Old Estimates | New Estimates | | YoY Change |
|-----------|---------------|---------------|--------|------------|
| | FY13E | FY13E | FY14E | FY13E |
| Revenue | 58,963 | 60,748 | 69,532 | 3.0% |
| EBITDA | 10,837 | 11,291 | 13,099 | 4.2% |
| OPM(%) | 18.4% | 18.6% | 18.8% | 190 bps |
| PAT | 7,402 | 7,682 | 9,025 | 3.8% |
| EPS (Rs.) | 21.8 | 22.6 | 26.5 | 3.6% |

Source: BRICS Research

Exhibit 4: Detailed consolidated quarterly performance **(Rs mn)**

| | Q4FY12 | Q4FY11 | YoY Growth | Q3FY12 |
|-------------------|--------|--------|------------|--------|
| Net Sales | 13,249 | 10,145 | 30.6% | 13,509 |
| Expenditure | 10,749 | 8,390 | 28.1% | 10,788 |
| Material Cost | 6,144 | 4,946 | 24.2% | 6,244 |
| % of Sales | 46.4% | 48.8% | -240 bps | 46.2% |
| Employee Expenses | 1,202 | 719 | 67.0% | 1,108 |
| % of Sales | 9.1% | 7.1% | 200 bps | 8.2% |
| Other Expenses | 2,308 | 1,974 | 17.0% | 2,315 |
| % of Sales | 17.4% | 19.5% | -200 bps | 17.1% |
| Operating Profit | 2,500 | 1,755 | 42.4% | 2,721 |
| EBIDTA (%) | 18.9% | 17.3% | 160 bps | 20.1% |
| Other Income | 184 | 271 | -32.1% | 180 |
| Interest | 194 | 109 | 78.1% | 287 |
| Depreciation | 155 | 133 | 17.0% | 171 |
| PBT | 2,335 | 1,784 | 30.9% | 2,443 |
| Tax | 601 | 397 | 51.4% | 555 |
| APAT | 1,734 | 1,388 | 25.0% | 1,888 |
| MI | 50 | 0 | NA | 162 |
| APAT after MI | 1,684 | 1,388 | 21.4% | 1,726 |
| RPAT after MI | 1,927 | 1,417 | 36.0% | 1,671 |
| AEPS | 5.1 | 4.3 | 18.8% | 5.8 |
| REPS | 5.8 | 4.4 | 32.7% | 5.7 |

Source: Company, BRICS Research

Financial summary

| Income statement | | | | | Balance sheet | | | | |
|-----------------------------|--------|--------|--------|--------|----------------------------|--------|--------|--------|--------|
| (Rs mn) | | | | | (Rs mn) | | | | |
| Y/E 31 March | 2011 | 2012P | 2013E | 2014E | Y/E 31 March | 2011 | 2012P | 2013E | 2014E |
| Revenue | 36,461 | 48,662 | 60,748 | 69,532 | Net fixed assets | 15,527 | 15,840 | 15,704 | 15,532 |
| Revenue growth (%) | 78.4 | 33.5 | 24.8 | 14.5 | Investments | — | — | — | 8,314 |
| Operating exp | 30,205 | 39,903 | 49,458 | 56,433 | Current assets | 15,062 | 20,195 | 18,647 | 22,070 |
| EBITDA | 6,256 | 8,759 | 11,291 | 13,099 | Inventories | 4,394 | 7,839 | 7,034 | 8,075 |
| EBITDA margin (%) | 17.2 | 18.0 | 18.6 | 18.8 | Sundry debtors | 3,840 | 4,725 | 4,146 | 4,668 |
| Depreciation | 499 | 644 | 371 | 371 | Cash & bank balance | 2,269 | 3,861 | 1,917 | 2,991 |
| EBIT | 5,757 | 8,115 | 10,920 | 12,728 | Loans & advances | 4,437 | 3,645 | 5,513 | 6,299 |
| MTM profit / (loss) | — | — | — | — | Other current assets | 122 | 124 | 37 | 37 |
| Other income | 680 | 520 | 664 | 668 | Total assets | 45,993 | 59,285 | 57,740 | 69,306 |
| Interest paid | 323 | 659 | 469 | 366 | Net worth | 16,928 | 27,811 | 31,423 | 36,278 |
| PBT | 6,114 | 7,976 | 11,115 | 13,029 | Share capital | 324 | 340 | 340 | 340 |
| Tax | 1,302 | 2,260 | 3,092 | 3,623 | Reserves & surplus | 16,604 | 27,471 | 31,082 | 35,938 |
| PAT | 5,147 | 7,267 | 7,821 | 9,025 | Minority interest | — | — | — | — |
| Minority interest | — | 245 | 341 | 381 | Total debt | 20,054 | 15,640 | 13,640 | 18,640 |
| EO income | 335 | 1,797 | 139 | — | Secured loans | 2,032 | 2,353 | 2,353 | 2,353 |
| APAT | 4,812 | 5,470 | 7,682 | 9,025 | Unsecured loans | 18,022 | 13,287 | 11,287 | 16,287 |
| PAT growth (%) | 51.6 | 41.2 | 7.6 | 15.4 | Current liabilities & prov | 8,673 | 15,498 | 12,299 | 14,010 |
| Shares o/s (mn) | 340 | 340 | 340 | 340 | Current liabilities | 8,448 | 14,755 | 11,999 | 13,710 |
| Fully diluted o/s shrs (mn) | 1,959 | 1,959 | 1,959 | 1,959 | Provisions | 225 | 743 | 300 | 300 |
| FDEPS (Rs) recurring | 14.9 | 16.1 | 22.6 | 26.5 | Net deferred tax liab | 14 | (5) | 38 | 38 |
| | | | | | Total liabilities | 45,993 | 59,285 | 57,740 | 69,306 |

| Cash flow statement | | | | | Key ratios | | | | |
|-------------------------|----------|---------|---------|---------|-------------------------------|--------|-------|-------|-------|
| (Rs mn) | | | | | | | | | |
| Y/E 31 March | 2011 | 2012P | 2013E | 2014E | Y/E 31 March | 2011 | 2012P | 2013E | 2014E |
| PBT | 6,114 | 7,976 | 11,115 | 13,029 | Valuation ratios | | | | |
| Depreciation | 499 | 644 | 371 | 371 | PE (x) | 38.0 | 35.2 | 25.1 | 21.3 |
| Amortisation | — | — | — | — | CEPS (Rs) | 15.6 | 18.7 | 24.7 | 28.7 |
| Interest paid | 323 | 659 | 469 | 366 | PCE (x) | 36.2 | 30.3 | 22.9 | 19.7 |
| Tax paid | 1,302 | 2,260 | 3,092 | 3,623 | BVPS (Rs) | 50 | 82 | 92 | 107 |
| Chg in working capital | (3,732) | 3,285 | (3,595) | (639) | Price/Book (x) | 11.4 | 6.9 | 6.1 | 5.3 |
| Int/div in other income | — | — | — | — | EV/EBITDA (x) | 32.5 | 22.6 | 17.5 | 15.4 |
| Other operations | (9,743) | (19) | 43 | — | EV/Revenue (x) | 5.6 | 4.1 | 3.3 | 2.9 |
| CF from operations (a) | (8,278) | 9,625 | 4,842 | 9,138 | Dividend yield (%) | 1.8 | 2.4 | 2.4 | 2.4 |
| Capital expenditure | (13,880) | (7,007) | (235) | (200) | Cash flow yield (%) | (11.2) | 1.4 | 2.4 | 0.3 |
| Chg in investments | 599 | — | — | (8,314) | Performance ratios | | | | |
| Other investing act | — | — | — | — | Raw material to sales (%) | 48.0 | 47.6 | 47.0 | 47.2 |
| Int/div in other income | — | — | — | — | SGA to sales (%) | 23.2 | 19.5 | 19.2 | 19.0 |
| CF from investments (b) | (13,282) | (7,007) | (235) | (8,514) | Effective tax rate (%) | 21.3 | 28.3 | 27.8 | 27.8 |
| Free cash flow (a+b) | (21,560) | 2,618 | 4,607 | 624 | PAT margin (%) | 14.1 | 14.9 | 12.9 | 13.0 |
| Equity raised/(repaid) | 5,228 | 17 | — | — | DPS (Rs) | 10.1 | 13.4 | 13.4 | 13.4 |
| Debt raised/(repaid) | 17,314 | (4,414) | (2,000) | 5,000 | Dividend payout ratio (%) | 68 | 83 | 59 | 50 |
| Interest paid | 323 | 659 | 469 | 366 | Return ratios | | | | |
| Dividend (incl tax) | (1,966) | (4,551) | (4,551) | (4,551) | RoE avg (%) | 36.8 | 24.5 | 25.9 | 26.7 |
| Other fin activities | 1,777 | 7,922 | — | — | RoCE avg (%) | 15.4 | 18.5 | 24.0 | 23.0 |
| CF from financing (c) | 22,353 | (1,026) | (6,551) | 449 | Fixed asset turnover (x) | 4.0 | 3.1 | 3.9 | 4.5 |
| Net chg in cash (a+b+c) | 793 | 1,592 | (1,944) | 1,074 | Working capital ratios | | | | |
| Opening balance | 3,052 | 2,269 | 3,861 | 1,917 | Inventory (days) | 35 | 46 | 45 | 40 |
| Closing balance | 3,845 | 3,861 | 1,917 | 2,991 | Payable (days) | 33 | 30 | 28 | 31 |
| | | | | | Receivable (days) | 38 | 35 | 25 | 25 |
| | | | | | Working capital (days) | 41 | 51 | 42 | 33 |
| | | | | | Leverage ratios | | | | |
| | | | | | Interest cost (%) | 3.2 | 3.7 | 3.2 | 2.3 |
| | | | | | Net debt/equity (x) | 1.1 | 0.4 | 0.4 | 0.4 |
| | | | | | Interest coverage (x) | 17.8 | 12.3 | 23.3 | 34.7 |

BRICS RECOMMENDATION SCALE

| | |
|----------------|--|
| BUY: | More than 15% upside |
| ADD: | Upside up to 15% (between 0% and 15%) |
| REDUCE: | Downside up to 15% (between 0% and -15%) |
| SELL: | More than 15% downside |

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