

REDUCE

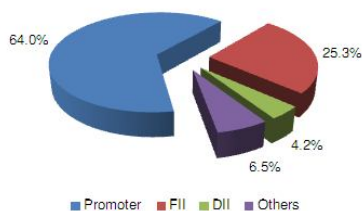
CMP*	Rs566
Target Price	Rs533

Stock Info

Sector	FMCG
Market Cap (Rs cr)	19,246
52 Week High/Low	585/355
Avg. Daily Volume (3m, '000)	213
Avg. Daily Value (3m, cr)	10.2
Dividend Yield (%)	0.9
Sensex	16,831
Nifty	5,087
BSE Code	532424
NSE Code	GODREJCP

Stock Performance

(%)	GCPL	NIFTY
1-week	8.0	(2.0)
1-month	14.6	(4.4)
1-year	48.5	(8.1)

Shareholding Pattern (%)**Stock Price Chart**

Note: *CMP as on May 4, 2012

Analyst: Chitragda Kapur
chitragda.kapur@relianceada.com

Results strong, however, upsides for the stock capped

Key highlights of the result

We would like to highlight that the yoy comparison of the numbers are not valid on account of complete consolidation of the recently acquired Darling Group of companies

- Yet another quarter of strong sales growth led by both domestic as well as international businesses:** GCPL reported a top-line growth of ~31% yoy driven by high growth in the core categories in the domestic business. In terms of domestic business, home care business segment, comprising primarily of household insecticides recorded a sales growth of 28% yoy, aided by distribution synergies, product innovations and investments behind the brand *Good Knight*, while, soaps and hair colors segment registered sales growth of ~30% yoy (with volume growth of 17% yoy) and 13% yoy respectively. International business for the company registered 27% yoy organic sales growth with high growth recorded from all continents (Asia, Latin America and Europe recorded yoy growth of 30%, 29% and 21% respectively; Africa including *Darling* group recorded revenue of Rs128cr).
- Margin expansion aided by gross margin expansion and savings in other expenses:** Savings in the gross margins (down 249bp yoy) and other expenses (down 207bp yoy) on the back of favorable category sales mix and cost efficiencies achieved on account of integration, aided operating margin performance. Operating margins were up by 173bp yoy to 18.8% for 4QFY2012. In terms of other expenses, staff cost (up 197bp yoy) and advertisement expense (up 86bp yoy) came in higher.
- Margin expansion aids recurring earnings:** GCPL registered earnings growth of 21.9% yoy aided by strong top-line growth and trickle-down effect of the margin expansion. Depreciation expense came in higher on yoy basis on account of increase in the gross block, while, interest expense came in higher on account of increased debt in the books of the company.

Outlook and Valuation

We are enthused with the quarterly performance of the company, and the numbers reported were largely in-line with our estimates. Reporting a strong performance in terms of revenue recognition, and achieving cost synergies amongst the acquired companies spanning geographies pose uncertainty in terms of exchange rate fluctuation, and political environment, however, GCPL has been able to deliver stellar results so far. Hence, we believe, while downside to the stock is limited, upside to the stock price from hereon is also capped. **On comparison with the FMCG portfolio that we track, we believe that GCPL will be an underperformer; we would rather prefer HUL (target price of Rs466) or Marico (target price of Rs190) over GCPL at the current juncture. Hence, at the CMP, we recommend a Reduce on the stock with a target price of Rs533.**

Risks to the view

- We have not factored the Chile acquisition into our model yet. Strong revenue recognition from Chile pose an upside to our estimates
- Better cost synergies accruing from integration of acquisitions than estimated, pose an upside risk

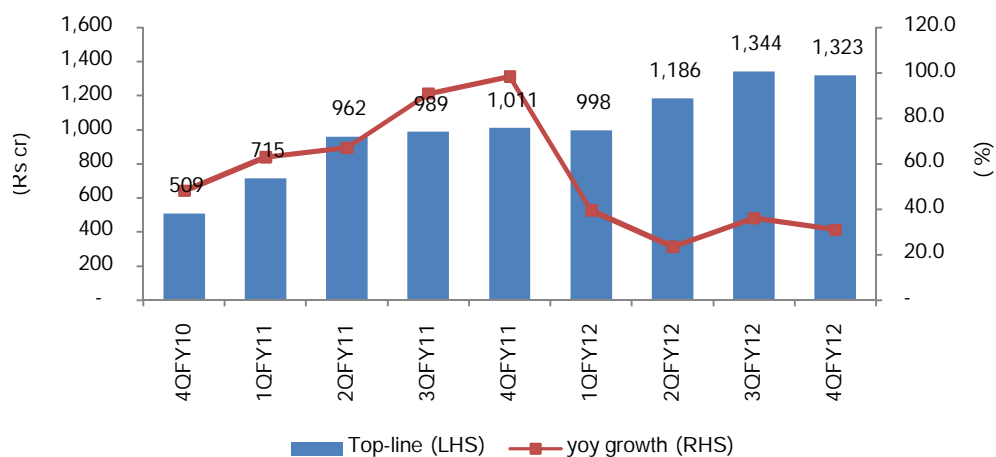
Year End	Net Revenues		EBITDA		Net income (reported)		RoAe	RoCE	EPS	Valuations (X)	
	(Rs cr)	% growth	(Rs cr)	% margin	(Rs cr)	% growth				%	%
FY2011	3,676	80.1	635	17.3	515	51.6	38.4	24.8	13.9	40.6	32.3
FY2012	4,851	32.0	861	17.7	727	41.2	32.0	19.4	16.2	34.9	23.4
FY2013E	6,190	27.6	1,127	18.2	696	(4.2)	22.2	22.8	21.4	26.5	18.7
FY2014E	7,105	14.8	1,329	18.7	864	24.2	22.5	25.0	25.4	22.3	15.8

Exhibit 1: Quarterly Performance (consolidated)

Y/E March (Rs cr)	4QFY12	4QFY11	% yoy	3QFY12	% qoq	FY2012	FY2011	% yoy
Net Sales	1,323.0	1,011.0	30.9	1,344.1	(1.6)	4,850.9	3,676.3	32.0
Consumption of RM (% of Sales)	614.4 46.4	494.6 48.9	24.2	632.0 47.0	(2.8)	2,318.5 47.8	1,707.2 46.4	35.8
Staff Costs (% of Sales)	120.2 9.1	71.9 7.1	67.0	110.4 8.2	8.8	391.9 8.1	284.5 7.7	37.7
Advertising (% of Sales)	109.6 8.3	75.0 7.4	46.1	112.1 8.3	(2.2)	449.9 9.3	352.9 9.6	27.5
Other Expenses (% of Sales)	230.8 17.4	197.4 19.5	17.0	225.8 16.8	2.2	830.0 17.1	696.0 18.9	19.3
Total Expenditure	1,074.9	839.0	28.1	1,080.3	(0.5)	3,990.3	3,040.5	31.2
Operating Profit	248.1	172.1	44.2	263.7	(5.9)	860.7	635.8	35.4
OPM (%)	18.8	17.0		19.6		17.7	17.3	
Depreciation	15.5	13.3	17.0	17.1	(8.9)	64.4	49.9	29.1
EBIT	232.6	158.8	46.4	246.7	(5.7)	796.2	585.9	35.9
Interest	19.4	10.9	78.1	20.5	(5.7)	65.8	43.6	
Other Income	19.5	33.4	(41.5)	12.6	54.8	46.7	69.5	(32.8)
PBT	232.7	181.3	28.4	238.8	(2.5)	777.1	611.8	27.0
Provision for Taxation (% of PBT)	60.1 25.8	39.7 21.9	51.4	55.5 23.2	8.3	226.1 29.1	138.2 22.6	63.6
Recurring PAT	172.7	141.7	21.9	183.3	(5.8)	551.1	473.6	16.4
Ext. Income/(Exp.)	25.0	-		-		200.2	41.1	
Minority Interest	5.0	-		16.2		24.5	-	
Reported PAT	192.7	141.7	36.0	167.1	15.3	726.7	514.7	41.2
PATM (%)	14.6	14.0		12.4		15.0	14.0	
FDEPS (Rs)	5.7	4.2	36.0	4.9	15.3	21.4	15.1	41.2

Source: Company, RSec Research

In domestic business segment, Household insecticides registered strong growth of 28% yoy (~3x higher than the industrial growth rate of ~9% yoy), while, soaps segment registered growth of 30% yoy (~1.5x higher growth rate than the industrial growth rate of ~20% yoy)

Exhibit 2: Top-line performance though strong, is not comparable yoy

Source: Company, RSec Research

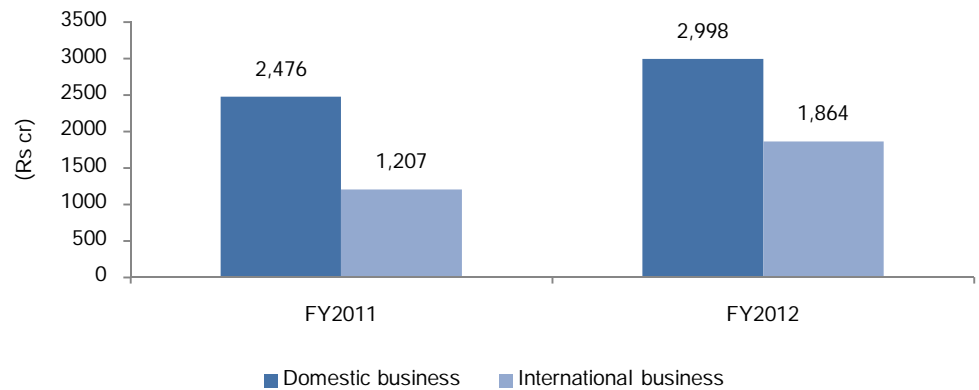
Domestic business has reported robust growth, driven by new product launches and full absorption of price hikes taken in the past few quarters, while, the international revenue is boosted by recent acquisitions

Sequential increase in gross margins is on account of full absorption of price hikes taken in 4QFY2011 across portfolio and marginal decline in the palm oil prices

For FY2012, OPM registered a flattish increase of ~45bp yoy (our estimate was an increase of ~25bp yoy), primarily on account of high raw material inflation (up ~135bp yoy)

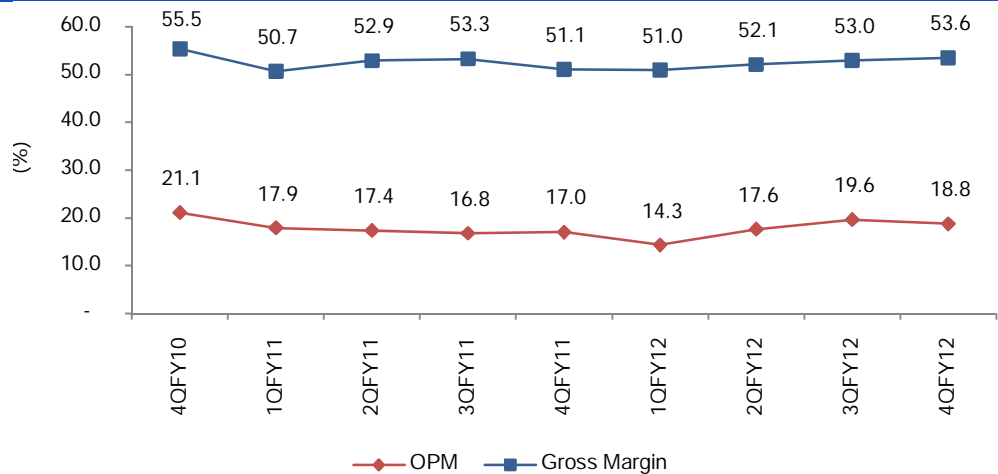
We have not yet factored in our numbers the acquisition of Chile that GCPL announced in 3QFY2012 and equity dilution on account of preferential issue of its shares to Baytree investments. We figure both the deals together to be EPS neutral for GCPL

Exhibit 3: International business not comparable yoy, boosted by recent acquisitions



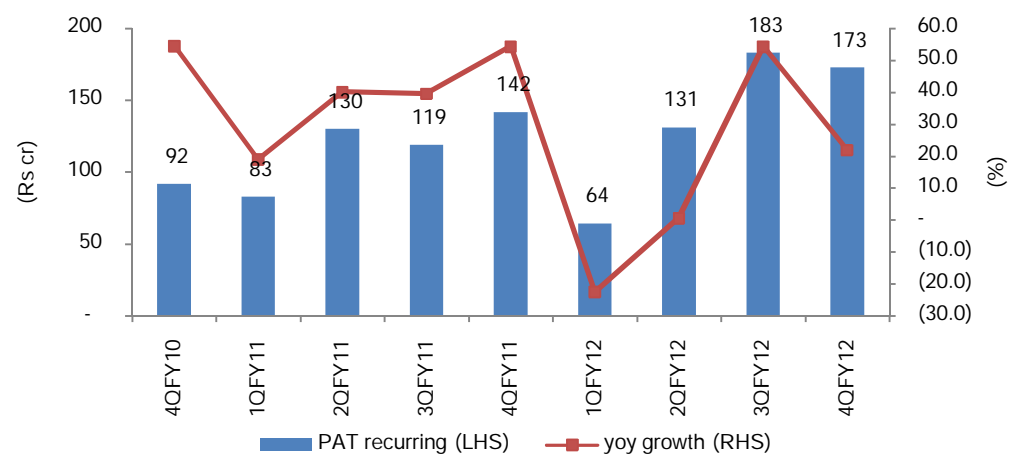
Source: Company, RSec Research

Exhibit 4: Cost synergies and gross margin expansion aids OPM



Source: Company, RSec Research

Exhibit 5: Recurring PAT growth strong, aided by higher revenue and margin expansion



Source: Company, RSec Research

Profit & Loss Statement

Y/E March (Rs cr)	FY2011	FY2012	FY2013E	FY2014E
Gross sales	3,759	4,958	6,329	7,265
Less: Excise duty	82	107	139	160
Net Sales	3,676	4,851	6,190	7,105
Other operating income	3	4	4	4
Total operating income	3,679	4,855	6,194	7,109
% chg	80.0	31.9	27.6	14.8
Total Expenditure	3,041	3,990	5,064	5,776
EBITDA	635	861	1,127	1,329
% chg	55.8	35.4	30.9	17.9
(% of Net Sales)	17.3	17.7	18.2	18.7
Depre. & Amortization	50	64	78	90
EBIT	586	796	1,048	1,238
(% of Net Sales)	15.9	16.4	16.9	17.4
Interest	52	66	61	52
Other Income	75	43	47	45
Share in profit of Asso.	-	-	-	-
PBT (reported)	612	777	1,038	1,235
(% change)	45.7	27.0	33.6	18.9
Tax	138	226	311	370
Tax rate (%)	22.6	29.1	30.0	30.0
PAT (recurring)	474	551	727	864
Ext. Exp./ (Income)	(41)	(200)	-	-
Minority interest (MI)	-	24.52	30.60	-
PAT (reported)	515	727	696	864
% chg	51.6	41.2	(4.2)	24.2
(% of Net Sales)	14.0	15.0	11.2	12.2
Basic EPS (Rs)	14.6	16.2	21.4	25.4
Fully Diluted EPS (Rs)	13.9	16.2	21.4	25.4
% chg	39.5	16.4	31.9	18.9

Cash Flow Statement

Y/E March (Rs cr)	FY2011	FY2012	FY2013E	FY2014E
Profit before tax	612	777	1,038	1,235
Depreciation	50	64	78	90
Change in Working Capital	400	(152)	(349)	0
Interest / Dividend (Net)	25	40	29	22
Direct taxes paid	138	226	311	370
Others	(255)	(52)	230	(275)
Cash Flow from Operations	694	452	716	702
(Inc.)/ Dec. in Fixed Assets	(2,415)	(708)	(283)	(287)
(Inc.)/ Dec. in Investments	67	-	-	-
Cash Flow from Investing	(2,348)	(708)	(283)	(287)
Issue of Equity	498	686	-	-
Inc./(Dec.) in loans	1,441	93	(400)	(300)
Dividend Paid (Incl. Tax)	197	70	68	64
Interest / Dividend (Net)	5	40	29	22
Cash Flow from Financing	1,737	669	(497)	(386)
Inc./(Dec.) in Cash	83	413	(64)	29
Opening Cash balances	305	227	640	575
Closing Cash balances	227	640	575	604

Balance Sheet

Y/E March (Rs cr)	FY2011	FY2012	FY2013E	FY2014E
SOURCES OF FUNDS				
Equity Share Capital	32	34	34	34
Share Capital suspense account	-	-	-	-
Reserves & Surplus	1,693	2,781	3,410	4,210
Shareholders Funds	1,725	2,815	3,444	4,244
Total Loans	1,478	1,571	1,171	871
Deferred Tax Liability	1	(1)	(1)	(1)
Minority Interest	-	88	88	88
Total Liabilities	3,204	4,474	4,703	5,203
APPLICATION OF FUNDS				
Gross Block	1,915	1,936	2,063	2,153
Less: Acc. Depreciation	385	449	528	618
Net Block	1,530	1,487	1,536	1,535
Capital Work-in-Progress	15	97	103	151
Goodwill	1,540	2,145	2,295	2,445
Investments	-	-	-	-
Current Assets	1,404	2,287	2,276	2,540
Cash	227	640	575	604
Loans & Advances	187	131	136	142
Other	991	1,517	1,564	1,794
Current liabilities	1,286	1,543	1,507	1,468
Net Current Assets	119	745	768	1,072
Mis. Exp. not written off	-	-	-	-
Total Assets	3,204	4,474	4,703	5,203

Key Ratios

Y/E March	FY2011	FY2012	FY2013E	FY2014E
Valuation Ratio (x)				
P/E (on FDEPS)	40.6	34.9	26.5	22.3
P/CEPS	35.0	31.3	23.9	20.2
P/BV	10.6	6.8	5.6	4.5
Dividend yield (%)	0.9	0.3	0.3	0.3
EV/Sales	5.6	4.2	3.4	3.0
EV/EBITDA	32.3	23.4	18.7	15.8
EV / Total Assets	6.4	4.5	4.5	4.0
Per Share Data (Rs)				
EPS (Basic)	14.6	16.2	21.4	25.4
EPS (fully diluted)	13.9	16.2	21.4	25.4
Cash EPS	16.2	18.1	23.7	28.1
DPS	5.0	1.8	1.7	1.6
Book Value	53.3	82.7	101.2	124.7
Returns (%)				
RoCE	24.8	19.4	22.8	25.0
RoE	38.4	32.0	22.2	22.5
Turnover ratios (x)				
Asset Turnover	1.9	2.5	3.0	3.3
Inventory / Sales (days)	44	59	60	60
Receivables (days)	38	36	33	32
Payables (days)	124	110	83	70
WCC (days)	(11)	8	11	24

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