

October 24, 2011

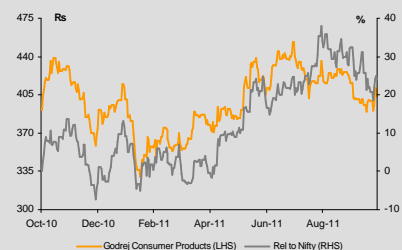
Reco	Previous Reco
Accumulate	Accumulate
CMP	Target Price
Rs 404	Rs 446
EPS change FY12/13E (%)	-8 / -6
Target Price change (%)	-6
Nifty	5,050
Sensex	16,786

Price Performance

(%)	1M	3M	6M	12M
Absolute	(4)	(9)	7	3
Rel. to Nifty	(3)	(0)	25	24

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Consumers
Bloomberg	GCPL@IN
Equity Capital (Rs mn)	324
Face Value(Rs)	1
No of shares o/s (mn)	324
52 Week H/L	464/325
Market Cap (Rs bn/USD mn)	131/2,616
Daily Avg Volume (No of sh)	288827
Daily Avg Turnover (US\$m)	2.4

Shareholding Pattern (%)

	Jun-11	Mar-11	Dec-10
Promoters	67.3	67.3	67.4
FII/NRI	19.3	19.5	19.4
Institutions	2.2	1.7	1.8
Private Corp	3.7	4.6	4.4
Public	7.5	7.0	7.0

Source: Capitaline

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- **Godrej Consumer's (GCPL) consolidated revenue grew 24% yoy to Rs 12 bn, in line with our estimates. However, forex loss restricted APAT growth to 4%, below our estimates**
- **Domestic growth remained strong at 24% yoy – HI at 29% and soaps at 32%. Continued input costs pressure resulted in standalone EBITDA margin contraction of 220bps**
- **International revenue growth of 24% yoy - Megasari at 24% and South-Africa at 48%. Favourable sales mix with prudent cost management resulted in 200bps margin expansion**
- **Downward revise our FY12E EPS by 8% to Rs 17.8 and FY13E EPS by 6% to Rs 22.3 – Maintain ACCUMULATE rating on the stock with revised target price of Rs 446/share**

Strong revenue growth... forex loss impacts PAT - below estimates

GCPL reported healthy revenue growth of 24% yoy to Rs 12 bn (consolidated) aided by 24% growth in its domestic business and 24% growth (19% organic) in the international business. While favourable sales mix and effective price increases partially offset higher operating costs, consolidated EBITDA margins contracted 75 bps to 18%. Further, forex loss of Rs 166 mn marred consolidated PAT performance, which registered a muted growth of 4% yoy to Rs 1.3 bn, against our expectation of Rs 1.5 bn. Ex-forex loss, adjusted PAT is in line with our expectations.

Domestic growth remains strong, margins impacted by higher costs

Domestic business witnessed robust revenue growth of 24% yoy to Rs 7.8 bn. Soaps registered strong 32% value and 19% volume growth, higher than category growth of 10% and flat volumes, driven by distribution synergies and stronger rural focus in this quarter. Household insecticide (HI) segment continued its strong performance with 29% revenue growth (double the category growth) primarily driven by volumes. Hair colours continued its modest pace at 15% revenue growth for the quarter. Also, there was pressure on EBITDA margins, which contracted 220 bps to 19% at the standalone level. This coupled with forex loss of Rs 85mn, impacted standalone PAT, which remained muted at Rs 1 bn.

International business – Better margin performance...

International business witnessed healthy growth momentum – revenue growth of 24% yoy (19% organic) to Rs 4.2 bn and EBITDA margin increase of 200 bps to Rs 681 mn. While revenue growth remained strong, favourable sales mix, healthy performance of new launches and prudent costs management has aided healthy margin expansion. This business registered PAT of Rs 190 mn for 2QFY12.

- Megasari's (Indonesia – 55% of international business) revenue increased 27% yoy in INR terms to Rs 2.3 bn (20% in constant currency) aided by distribution expansion and healthy performance of the recently launched, HIT magic paper, Stella bathroom and car air fresheners. EBITDA margins increased 180 bps yoy driven by healthy sales mix and efficient costs management.

Financial Snapshot (Consolidated)

Rs Mn

	Net Sales	EBITDA (Core)	EBITDA (%)	APAT	AEPS (Rs)	AEPS Chg %	RoE (%)	P/E (x)	EV/ EBITDA (x)	P/BV (x)
YE-Mar										
FY10	20,437	4,073	19.9	3,380	11.0	63.4	44.4	36.7	29.9	13.0
FY11	36,461	6,256	17.2	4,816	15.9	44.4	35.9	25.4	23.7	7.6
FY12E	48,252	8,450	17.5	5,845	17.8	11.7	31.2	22.7	17.6	6.5
FY13E	60,446	10,869	18.0	7,548	22.3	25.5	33.7	18.1	13.9	5.4

Quarterly Results (Consolidated)

	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY (%)	QoQ (%)	YTDFY12	YTDFY11	YoY (%)
Net Sales	9,647	9,858	10,069	10,030	11,919	23.5	18.8	21,949	16,854	30.2
Expenditure	7,838	8,126	8,218	8,550	9,772	24.7	14.3	18,322	13,707	33.7
Material Cost	4,619	4,738	4,605	4,893	5,678	22.9	16.0	10,570	8,145	29.8
% of Sales	47.9	48.1	45.7	48.8	47.6	-24 bps	-114 bps	48.2	48.3	-17 bps
Employee Expenses	804	831	719	801	819	1.9	2.2	1,620	1,294	25.1
% of Sales	8.3	8.4	7.1	8.0	6.9	-146 bps	-112 bps	7.4	7.7	-30 bps
Other Expenses	2,415	2,557	2,893	2,857	3,275	35.6	14.6	6,132	4,267	43.7
% of Sales	25.0	25.9	28.7	28.5	27.5	244 bps	-100 bps	27.9	25.3	262 bps
Ebidta	1,810	1,732	1,851	1,480	2,147	18.7	45.1	3,627	3,148	15.2
Depreciation	155	135	133	159	159	3.2	0.2	319	250	27.6
Ebit	1,655	1,597	1,718	1,321	1,988	20.1	50.5	3,309	2,898	14.2
Other Income	74	9	287	186	-5	(106.7)	(102.7)	181	129	40.4
Interest	89	133	192	192	241	171.2	25.5	433	195	122.4
PBT	1,641	1,473	1,814	1,314	1,742	6.2	32.5	3,056	2,832	7.9
Tax	338	285	397	673	432	27.7	(35.8)	1,105	701	57.7
Adjusted PAT	1,302	1,188	1,417	1,026	1,359	4.4	32.5	2,385	2,131	11.9
Extra Ordinary Items	8	0	0	1,752	0	-	-	1,752	411	326.1
Reported PAT	1,311	1,188	1,417	2,393	1,310	(0.0)	(45.3)	3,703	2,542	45.7
EPS	4.0	3.7	4.4	3.2	4.2	3.7	32.5	7.4	7.9	(6.9)

Margins (%)						(bps)	(bps)			(bps)
EBIDTA	18.8	17.6	18.4	14.8	18.0	-74 bps	326 bps	16.5	18.7	-215 bps
EBIT	17.2	16.2	17.1	13.2	16.7	-48 bps	351 bps	15.1	17.2	-212 bps
EBT	17.0	14.9	18.0	13.1	14.6	-239 bps	151 bps	13.9	16.8	-288 bps
PAT	13.5	12.1	14.1	10.2	11.4	-209 bps	118 bps	10.9	12.6	-178 bps
Effective Tax rate	20.6	19.3	21.9	22.0	24.8	418 bps	284 bps	23.0	21.6	138 bps

- South African business (15% of international business) registered revenue growth of 47% yoy to Rs 650 mn driven by healthy growth in Rapidol – 28% revenue growth through entry into new markets. Kinky opened its 31st store and the management expects to drive integration benefits from Darling Group (a hair care company) in Africa and lead to higher margins in Kinky from Q4FY12.
- LaTAM business (16% of international revenues) grew by 13% yoy (20% in constant currency) to Rs 660 mn driven by new launches like ammonia-free Issue hair colour and Diamond Black hair colour cream in sachets and kits. EBITDA margins expanded 100 bps yoy to 7.4% driven by higher sales and effective costs management.
- The UK business (13% of international revenues) registered healthy growth of 10% to Rs 530 mn driven by its flagship brands – Cuticura, Touch of Silver and Bio-oil.

Maintain ACCUMULATE with target price of Rs 446/share

We downward revise our FY12E and FY13E earnings estimates by 8% and 6% to Rs 17.8/share and Rs 22.3/share, respectively to factor in higher raw material costs in domestic operations and an increase in consolidated borrowings (gross debt at Rs 24 bn) and thus higher interest outgo. We, however, would re-iterate that we like the company's continued focus on its core portfolio with a strong growth profile. Continued new launches and aggressive promotions will aid strong earnings CAGR of 25% over FY11-13E. Moreover, valuations at 18.1x FY13E EPS appear attractive. Hence we continue to maintain our ACCUMULATE rating on the stock with a revised target price of Rs 446/share (revised from Rs 474/share).

Revision in estimates

Y/E, Mar (Rs. mn)	FY12E			FY13E		
	Earlier	Revised	% Change	% Change	Revised	% Change
Revenues	47,666	48,252	1.2	60,038	60,446	0.7
EBITDA	8,603	8,450	-1.8	10,849	10,869	0.2
EBITDA Margin (%)	18.0	17.5	-50 bps	18.1	18.0	-10 bps
APAT	6,252	5,752	-8.0	7,663	7,220	-5.8
EPS	19.3	17.8	-8.0	23.7	22.3	-5.8

Financials (Consolidated)

Income Statement

Y/E, Mar (Rs. m)	FY10	FY11	FY12E	FY13E
Net Sales	20,437	36,461	48,252	60,446
Growth (%)	46.3	78.4	32.3	25.3
Expenses	16,364	30,205	39,802	49,576
Growth (%)	38.0	84.6	31.8	24.6
Raw Materials	9,472	17,497	23,077	28,445
% Of Sales	46.3	48.0	47.8	47.1
Employee Cost	1,518	2,845	3,852	5,025
% Of Sales	7.4	7.8	8.0	8.3
Other Expenses	4,046	6,341	8,256	10,360
% Of Sales	19.8	17.4	17.1	17.1
Advertising Expenses	1,328	3,521	4,617	5,747
% Of Sales	6.5	9.7	9.6	9.5
Ebidta	4,073	6,256	8,450	10,869
Growth (%)	92.8	53.6	35.1	28.6
Ebidta%	19.9	17.2	17.5	18.0
Other Income	427	698	703	781
Interest	71	323	912	992
Depreciation	236	499	687	799
PBT	4,184	6,118	7,547	9,851
Tax	803	1,302	1,702	2,304
PAT (Before EO Item)	3,380	4,816	5,845	7,548
Growth (%)	95.6	42.5	21.4	29.1
Net Margin%	16.5	13.2	12.1	12.5
E/O Item	16	331	0	0
Reported PAT	3,396	5,147	5,752	7,220

CashFlow

Y/E, Mar (Rs. m)	FY10	FY11	FY12E	FY13E
Pre-Tax Profit	4,199	6,118	7,547	9,851
Depreciation	236	499	687	799
Non Cash	19	482	0	0
Chg in Working Cap	-338	-3,732	97	-1,385
Tax Paid	-780	-1,420	-1,698	-2,300
Operating Cash Flow	3,337	1,948	6,632	6,965
Capex	3	-23,529	-4,131	-6,201
Free Cash Flow	3,340	-21,582	2,501	764
Investments	-574	19,113	0	0
Equity Capital	0	5,228	0	0
Loans	-2,459	0	2,500	2,000
Dividend	-1,039	-1,966	-2,866	-3,177
Others				
Net Change in Cash	-732	-782	2,135	-413
Opening Cash Position	3,783	3,052	2,269	4,404
Closing Cash Position	3,052	2,269	4,404	3,991

Balance Sheet

Y/E, Mar (Rs. m)	FY10	FY11	FY12E	FY13E
Equity Share Capital	308	324	324	324
Reserves	9,239	16,928	19,814	23,856
Networth	9,547	17,252	20,230	24,601
Secured Loans	369	17,017	17,017	19,017
Unsecured Loans	0	3,037	5,537	5,537
Loan Funds	369	20,054	22,554	24,554
Net Deferred Tax	66	14	18	22
Capital Employed	9,981	37,320	42,802	49,177
Gross Block	4,149	19,147	20,981	22,243
Less: Depreciation	1,531	3,775	4,461	5,260
Net Block	2,617	15,373	16,520	16,982
Capital Work In Progress	8	154	35	35
Goodwill	3,119	15,404	17,821	22,760
Investments	670	0	0	0
Current Assets	9,095	15,062	17,694	20,856
Inventories	2,644	4,394	4,632	5,780
Debtors	1,153	3,840	4,095	5,351
Cash & Bank	3,052	2,269	4,404	3,991
Loans & Advances	2,189	4,437	4,441	5,612
Current Liabilities & Prov	5,528	8,673	9,266	11,456
Net Current Assets	3,567	6,389	8,427	9,400
Miscellaneous Expenditure	0	0	0	0
Capital Deployed	9,981	37,320	42,802	49,177

Key Ratios

Y/E, Mar	FY10	FY11	FY12E	FY13E
Profitability %				
Ebidta Mgn	19.9	17.2	17.5	18.0
PAT Mgn	16.5	13.2	12.1	12.5
ROCE	46.1	27.2	21.1	23.6
ROE	44.4	35.9	31.2	33.7
ROIC	70.7	28.0	21.2	24.1
Per Share Data				
EPS	11.0	15.9	17.8	22.3
BVPS	31.0	53.3	62.2	74.7
DVPS	4.3	4.3	8.9	9.8
Valuations (X)				
PER	36.7	25.4	22.7	18.1
P/BV	13.0	7.6	6.5	5.4
Ev/Sales	6.0	4.1	3.1	2.5
Ev/Ebidta	29.9	23.7	17.6	13.9
Dividend Yield (%)	1.1	1.1	2.2	2.4
Debtor TO Days	15.7	25.0	30.0	28.5
Inventory TO Days	38.6	35.2	34.1	31.4
Gearing Ratio				
Net Debt/Equity	-0.4	1.0	0.9	0.8
Total Debt/ Equity	0.0	1.2	1.1	1.0

Recommendation History: Godrej Consumer Products – GCPL IN

Date	Reports	Reco	CMP	Target
15/09/2011	Consumers Sector Sector Update			
25/07/2011	GCPL Q1FY12 Result Update	Accumulate	453	474
03/06/2011	GCPL Event Update	Accumulate	411	474
02/05/2011	GCPL Q4FY11 Result Update	Accumulate	394	420

Recent Research Reports

Date	Reports	Reco	CMP	Target
03/08/2011	Berger Paints Q1FY12 Result Update	Accumulate	101	109
03/08/2011	GSK Cosnumer Q2CY11 Result Update	Accumulate	2,388	2,547
01/08/2011	Nestle India Q2CY11 Result Update	Accumulate	4,349	4,268
28/07/2011	Titan Industries Q1FY12 Result Update	Hold	228	225

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