May 4, 2012

## Godrei Consumer Products Ltd CMP ₹ 566.75 <br> EXIT

## Result Update <br> Q4FY12

Anuj Anandwala | anuj@ppfas.com

- Strong topline and bottomline growth
- International businesses growing well
- Domestic Hair colours business - lacklustre

Godrej Consumer Products Ltd (GCPL) reported a strong set of numbers for the quarter and the year ended March 2012.

On a quarterly consolidated basis, Y-o-Y, the company registered a topline growth of $31 \%$ from ₹10,110.4 Mn to $₹ 13,230.4 \mathrm{Mn}$. The numbers are not fully comparable because of the acquisitions during the course of last 12 months.

At the domestic level, the household insecticides and soaps business continued to grow well while hair care continued to face headwinds. Household insecticides sales have grown by $28 \%$ while the category grew at $9 \%$. Domestic soaps business grew by 30\% over Q4FY11. 17\% of this was volume-led. Hair Colors business however grew slower than the category. It grew by $13 \%$ while category growth was $22 \%$.

The Indonesian business (Megasari Group) continued its impressive performance. Sales grew by 30\% (20\% in local currency). EBITDA stood at 20.7 \% with Revenues of ₹ $2,550 \mathrm{Mn}$. Business did well in Africa, Latin America and Europe too. Africa registered sales of ₹ $1,280 \mathrm{Mn}$. Overall EBITDA (Africa) stood at 19.3\%. Sales in Latin America grew by $29 \%$ to ₹ 820 mn with EBITDA at $16.3 \%$. Revenues for Europe grew by $21 \%$ to ₹ 480 Mn and EBITDA was 10.5\%.

Overall Expenditure has been lower than the sales growth. This was partly due to expanded Gross margins. Operating Profits were up by $44 \%$ at ₹ $2,481 \mathrm{Mn}$ as compared to the same period last year. Interest costs continued to be high. This should come down over the coming quarters as the Company has reduced its debt partially. Consolidated PAT increased by $36 \%$ at ₹ $1,926.5 \mathrm{Mn}$. EPS stood at ₹ 5.8 .

On an annualized consolidated basis, the Company registered a topline growth of $32 \%$ from $₹ 36,763.1 \mathrm{Mn}$ to ₹ $48,509.4 \mathrm{Mn}$. Operating margins stood at $17.74 \%$, higher by 45 bps than FY11. The year also saw some inflows through exceptional items due to termination of license of Kiwi and Brylcreem brands. Overall PAT was higher by $41 \%$ at ₹7,267.2 Mn. EPS stood at ₹ 22.3.

The company has declared a final dividend of ₹ 1.75 . This takes the total for the year to ₹ 4.75 . At the CMP of ₹566.75, GCPL trades at a PE(TTM) of 25.4 times. Excluding the one time exceptional gain during the year, adjusted PE however would be in excess of 34 . Even if one were to account for the earnings that will get added from the acquisitions in the last 12 months and which do not yet show up in the TTM numbers, PE would still be around 31 times. Valuations are very high.

To understand future growth, on the domestic front, household insecticides business is doing well and may continue the good run. However soaps is a mature category and this may not grow at rates experienced for most part of this year. Hair colors too has become very competitive with the entry of MNCs. Growth here may be uncertain. On the international front, all the businesses seem to be in good stead. Excluding the currency aspect though, their growth rates (based on last 3 to 5 year data) may be in the range of $15 \%-20 \%$. We believe that valuations are too high for the kind of growth that we may see in the near to mid-term. Hence recommend investors to 'Exit'.

## Quarterly Financials

| Earnings Statement |  |  |  |  |  |  |  |  |
| :--- | ---: | ---: | ---: | ---: | ---: | ---: | ---: | ---: |
| YE March (₹Mn.) | Q4FY12 | Q3FY12 | Q-Q(\%) | Q4FY11 | Y-Y(\%) | FY12 | FY11 | Y-Y(\%) |
| Net Revenues | $13,230.4$ | $13,440.6$ | $-1.6 \%$ | $10,110.4$ | $30.9 \%$ | $48,509.4$ | $36,763.1$ | $32.0 \%$ |
| Cost of Materials | $6,143.6$ | $6,244.0$ | $-1.6 \%$ | $4,946.1$ | $24.2 \%$ | $23,185.2$ | $17,071.8$ | $35.8 \%$ |
| Gross Profit | $7,086.8$ | $7,196.6$ | $-1.5 \%$ | $5,164.3$ | $37.2 \%$ | $25,324.2$ | $19,691.3$ | $28.6 \%$ |
| Staff Costs | $1,201.5$ | $1,107.8$ | $8.5 \%$ | 719.4 | $67.0 \%$ | $3,919.1$ | $2,845.1$ | $37.7 \%$ |
| Advertising and Publicity | $1,096.0$ | $1,121.1$ | $-2.2 \%$ | 750.4 | $46.1 \%$ | $4,498.6$ | $3,528.5$ | $27.5 \%$ |
| Other Expenses | $2,308.3$ | $2,315.0$ | $-0.3 \%$ | $1,973.6$ | $17.0 \%$ | $8,299.7$ | $6,959.6$ | $19.3 \%$ |
| Total Expenditure | $10,749.4$ | $10,787.9$ | $-0.4 \%$ | $8,389.5$ | $28.1 \%$ | $39,902.6$ | $30,405.0$ | $31.2 \%$ |
| Operating Profit | $2,481.0$ | $2,652.7$ | $-6.5 \%$ | $1,720.9$ | $44.2 \%$ | $8,606.8$ | $6,358.1$ | $35.4 \%$ |
| OPM (\%) | $18.75 \%$ | $19.74 \%$ |  | $17.02 \%$ |  | $17.74 \%$ | $17.29 \%$ |  |
| Other Income | 195.3 | 193.0 | $1.2 \%$ | 333.8 | $-41.5 \%$ | 467.2 | 695.3 | $-32.8 \%$ |
| EBITDA | $2,676.3$ | $2,845.7$ | $-6.0 \%$ | $2,054.7$ | $30.3 \%$ | $9,074.0$ | $7,053.4$ | $28.6 \%$ |
| Depreciation | 155.3 | 170.5 | $-8.9 \%$ | 132.7 | $17.0 \%$ | 644.4 | 499.2 | $29.1 \%$ |
| EBIT | $2,521.0$ | $2,675.2$ | $-5.8 \%$ | $1,922.0$ | $31.2 \%$ | $8,429.6$ | $6,554.2$ | $28.6 \%$ |
| Interest | 193.6 | 287.2 | $-32.6 \%$ | 108.7 | $78.1 \%$ | 658.4 | 436.4 | $50.9 \%$ |
| Exceptional Items | 250.0 | - |  |  |  | $2,001.7$ | 411.4 |  |
| PBT | $2,577.4$ | $2,388.0$ | $7.9 \%$ | $1,813.3$ | $42.1 \%$ | $9,772.9$ | $6,529.2$ | $49.7 \%$ |
| Tax | 600.8 | 554.8 | - | 396.7 |  | $2,260.5$ | $1,382.1$ |  |
| PAT before MI | $1,976.6$ | $1,833.2$ | $7.8 \%$ | $1,416.6$ | $39.5 \%$ | $7,512.4$ | $5,147.1$ | $46.0 \%$ |
| Minority Interest | $(50.1)$ | $(162.2)$ |  |  |  | $(245.2)$ | - |  |
| PAT | $1,926.5$ | $1,671.0$ | $15.3 \%$ | $1,416.6$ | $36.0 \%$ | $7,267.2$ | $5,147.1$ | $41.2 \%$ |
| Equity Capital (Fv ₹1) | 340.3 | 323.6 |  | 323.6 |  | 340.3 | 323.6 |  |
| EPS | 5.8 | 5.2 | $12.9 \%$ | 4.4 | $33.2 \%$ | 22.3 | 16.1 | $38.7 \%$ |
| (FP |  |  |  |  |  |  |  |  |


| Ratio Analysis |  |  |  |  |  |  |  |  |
| :--- | ---: | ---: | ---: | ---: | ---: | ---: | ---: | ---: | ---: |
| Profitability | Q4FY12 | Q3FY12 | Q-Q(bps) | Q4FY11 | Y-Y(bps) | FY12 | FY11 | Y-Y(bps) |
| YE March | $18.75 \%$ | $19.74 \%$ | $(98.4)$ | $17.02 \%$ | 173.1 | $17.74 \%$ | $17.29 \%$ | 44.8 |
| OPM (\%) | $20.23 \%$ | $21.17 \%$ | $(94.4)$ | $20.32 \%$ | $(9.4)$ | $18.71 \%$ | $19.19 \%$ | $(48.0)$ |
| EBITDA (\%) | $19.05 \%$ | $19.90 \%$ | $(84.9)$ | $19.01 \%$ | 4.4 | $17.38 \%$ | $17.83 \%$ | $(45.1)$ |
| EBIT (\%) | $14.56 \%$ | $12.43 \%$ | 212.9 | $14.01 \%$ | 55.0 | $14.98 \%$ | $14.00 \%$ | 98.0 |
| PAT (\%) |  |  |  |  |  |  |  |  |
| Operational Parameters | Q4FY12 | Q3FY12 | Q-Q(bps) | Q4FY11 | Y-Y(bps) | FY12 | FY11 | Y-Y(bps) |
| YE March | $46.44 \%$ | $46.46 \%$ | $(2.1)$ | $48.92 \%$ | $(248.5)$ | $47.80 \%$ | $46.44 \%$ | 135.8 |
| RM Consumed | $8.28 \%$ | $8.34 \%$ | $(5.7)$ | $7.42 \%$ | 86.2 | $9.27 \%$ | $9.60 \%$ | $(32.4)$ |
| Ads and Sales Promotion |  |  |  |  |  |  |  |  |
| Staff Cost | $9.08 \%$ | $8.24 \%$ | 83.9 | $7.12 \%$ | 196.6 | $8.08 \%$ | $7.74 \%$ | 34.0 |
| Other Expenditure | $17.45 \%$ | $17.22 \%$ | 22.3 | $19.52 \%$ | $(207.4)$ | $17.11 \%$ | $18.93 \%$ | $(182.1)$ |
| Effective Tax Rate | $23.31 \%$ | $23.23 \%$ | 7.7 | $21.88 \%$ | 143.3 | $23.13 \%$ | $21.17 \%$ | 196.2 |

## Financials

| Earnings Statement |  |  |  |  |
| :--- | ---: | ---: | ---: | ---: |
| Particulars (₹ Mn) | FY09 | FY10 | FY11 | FY12 |
| Total Revenues | $13,929.6$ | $20,412.0$ | $36,430.0$ | $48,509.4$ |
| - Growth (\%) | $26.3 \%$ | $46.5 \%$ | $78.5 \%$ | $33.2 \%$ |
| Total Expenditure | $11,892.6$ | $16,338.6$ | $30,022.6$ | $39,902.6$ |
| Operating Profit | $2,037.0$ | $4,073.4$ | $6,407.4$ | $8,606.8$ |
| Other Income | 436.1 | 473.1 | 728.9 | 467.2 |
| EBITDA | $2,473.1$ | $4,546.4$ | $7,136.3$ | $9,074.0$ |
| Depreciation | 192.3 | 236.0 | 499.2 | 644.4 |
| EBIT | $2,280.9$ | $4,310.4$ | $6,637.1$ | $8,429.6$ |
| Interest | 188.6 | 111.0 | 519.2 | 658.4 |
| PBTand EI | $2,092.3$ | $4,199.4$ | $6,117.9$ | $7,771.2$ |
| Exceptional Items | - | - | 411.4 | $2,001.7$ |
| PBT | $2,092.3$ | $4,199.4$ | $6,529.3$ | $9,772.9$ |
| Tax | 366.1 | 803.3 | $1,382.2$ | $2,260.5$ |
| Minority Interest |  |  |  | $(245.2)$ |
| PAT | $1,726.2$ | $3,396.0$ | $5,147.1$ | $7,267.2$ |
| Growth (\%) | $8.4 \%$ | $96.7 \%$ | $51.6 \%$ | $41.2 \%$ |
| Tax adjustments | 6.4 | - | - | - |
| Reported PAT | $1,732.6$ | $3,396.0$ | $5,147.1$ | $7,267.2$ |


| Ratio Analysis |  |  |  |  |
| :--- | ---: | ---: | ---: | ---: |
| Particulars | FY09 | FY10 | FY11 | FY12 |
| OPM (\%) | $14.6 \%$ | $20.0 \%$ | $17.6 \%$ | $17.7 \%$ |
| EBITDA (\%) | $17.8 \%$ | $22.3 \%$ | $19.6 \%$ | $18.7 \%$ |
| PBIT (\%) | $16.4 \%$ | $21.1 \%$ | $18.2 \%$ | $17.4 \%$ |
| PAT (\%) | $12.4 \%$ | $16.6 \%$ | $14.1 \%$ | $15.0 \%$ |
| Interest Cover (x) | 12.1 | 38.8 | 12.8 | 12.8 |
| EPS (₹) | 6.7 | 11.0 | 15.9 | 22.3 |
| P/E (x) | 19.7 | 23.7 | 23.0 | 21.5 |
| P/BV (x) | 6.0 | 8.4 | 6.9 | 5.8 |
| BVPS (₹) | 22.1 | 31.0 | 53.3 | 82.7 |
| Market Cap (₹ Mn.) | $34,136.3$ | $80,576.3$ | $118,239.8$ | $163,224.9$ |
| M Cap/Sales (x) | 2.5 | 3.9 | 3.2 | 3.4 |
| EV (₹ Mn.) | $33,128.8$ | $77,893.4$ | $136,024.9$ | $172,107.4$ |
| EV/EBITDA (x) | 13.4 | 17.1 | 19.1 | 19.0 |
| EV/Sales (x) | 2.4 | 3.8 | 3.7 | 3.5 |
| ROCE (\%) | $26.9 \%$ | $43.2 \%$ | $17.8 \%$ | $18.8 \%$ |
| RONW (\%) | $30.6 \%$ | $35.6 \%$ | $29.8 \%$ | $25.8 \%$ |
| Debt/Equity Ratio (x) | 0.5 | 0.0 | 1.2 | 0.5 |
| Inventory T/o Days | 43.3 | 46.6 | 43.4 | 58.2 |
| Debtors T/o Days | 15.6 | 20.3 | 37.9 | 35.1 |
| Advances T/o Days | 30.4 | 38.6 | 43.8 | 8.8 |
| Creditors T/o Days | 75.4 | 93.9 | 83.5 | 109.0 |
| Working Cap T/o Days | 104.1 | 62.9 | 63.1 | 34.9 |
| Fixed Assets T/o (Gross) | 4.1 | 4.9 | 1.9 | - |
| DPS (Adjusted)(₹) | 4.0 | 4.3 | 4.5 | 4.8 |
| Dividend Payout (\%) | $59.3 \%$ | $38.6 \%$ | $28.3 \%$ | $21.3 \%$ |
| Dividend Yield (\%) | $3.0 \%$ | $1.6 \%$ | $1.2 \%$ | $1.0 \%$ |


| Balance Sheet |  |  |  |  |
| :--- | ---: | ---: | ---: | ---: |
| Particulars (₹ Mn) | FY09 | FY10 | FY11 | FY12 |
| Equity Capital (FV Re1) | 257.0 | 308.2 | 323.6 | 340.3 |
| Reserves | 5411.5 | 9238.7 | 16928.0 | 27811.5 |
| Shareholders Funds | 5668.5 | 9546.9 | 17251.6 | 28151.8 |
| Minority Interest | - | - | - | 882.3 |
| Loan Funds | 2775.7 | 368.7 | 20054.2 | 15281.2 |
| Deferred Tax Liability, Net | 42.1 | 65.9 | 14.3 | 110.5 |
| Others |  |  |  | 294.1 |
| Total Liabilities | 8486.3 | 9981.5 | 37320.1 | 44719.9 |
| Fixed Assets | 2296.9 | 2625.7 | 15526.8 | 15839.6 |
| Goodwill on Consolidation | 2085.7 | 3118.6 | 15404.1 | 21454.1 |
| Investments | 75.1 | 670.0 | - | - |
| Others |  |  |  | 2720.6 |
| Current Assets |  |  |  |  |
| Inventory | 1674.7 | 2644.3 | 4394.3 | 7839.1 |
| Sundry Debtors | 601.9 | 1152.6 | 3840.0 | 4725.3 |
| Loans \& Advances | 1177.6 | 2189.3 | 4437.0 | 1181.3 |
| Cash \& Bank Balance | 3783.2 | 3051.6 | 2269.1 | 6398.7 |
| Other Current Assets | 90.1 | 57.5 | 121.8 | 124.2 |
| Current Liabilities |  |  |  |  |
| Liabilities | 2918.6 | 5326.2 | 8448.1 | 14683.2 |
| Provisions | 380.3 | 201.9 | 224.9 | 520.6 |
| Others |  |  |  | 359.2 |
| Net Current Assets | 4028.6 | 3567.2 | 6389.3 | 4705.6 |
| Miscellaneous Exp not W/Off |  | - |  |  |
| Total Assets | 8486.3 | 9981.5 | 37320.1 | 44719.9 |


| Cash Flow |  |  |  |
| :--- | ---: | ---: | ---: |
| Particulars (₹ Mn) | FY09 | FY10 | FY11 |
| Opening Cash \& Bank | 425.9 | $3,520.1$ | $1,476.1$ |
| CF - Operating Activities | $1,432.7$ | $3,405.3$ | $2,061.3$ |
| CF - Investing Activities | $(1,415.2)$ | $(265.2)$ | $(23,642.8)$ |
| CF - Financing Activities | $3,339.8$ | $(3,608.6)$ | $22,374.5$ |
| Net Change in Cash | $3,357.3$ | $(468.5)$ | 793.0 |
| Closing Cash \& Bank Bal | $3,783.2$ | $3,051.6$ | $2,269.1$ |

Disclosure of Interest Statement
GCPL

1. Analyst Ownership of the scrip

NO
2. PPFAS ownership of the scrip

NO
3. PMS ownership of the scrip

This report or any portion hereof may not be reprinted, sold or redistributed without the written consent of Parag Parikh Financial Services Ltd. (PPFAS). PPFAS is disseminated and available primarily electronically, and, in some cases, in printed form. Additional information on recommended securities is available on request.

PPFAS is a Stock Broker registered with Securities and Exchange Board of India Limited (SEBI) and so it is regulated by SEBI. This report is not and should not be construed as an investment advice to any client to acquire, subscribe, purchase, sell, dispose of, retain any securities or an offer to sell or the solicitation of an offer to purchase or subscribe for any investment or as an official endorsement of any investment.

If 'Buy', 'Sell', or 'Hold' recommendation is made in this report such recommendation or view or opinion expressed on investments in this report is not intended to constitute investment advice and should not be intended or treated as a substitute for necessary review or validation or any professional advice. The views expressed in this report are those of the analyst which are subject to change and do not represent to be an authority on the subject. PPFAS may or may not subscribe to any and/ or all the views expressed herein.

PPFAS makes best endeavour to ensure that the analyst(s) use current, reliable, comprehensive information and obtain such information from sources, which the analyst(s) believes to be reliable. However, such information has not been independently verified by PPFAS or the analyst(s).

The information, opinions and views contained within this report are based upon publicly available information and rates of taxation at the time of publication, which are subject to change from time to time without any prior notice. reports may be updated anytime without any prior notice to any and/ or all client(s).

PPFAS makes no guarantee, representation or warranty, express or implied; and accepts no responsibility or liability as to the accuracy or completeness or currentness of the information in this report.

Please note that past performance is not necessarily a guide to evaluate future performance.
PPFAS and its affiliates and their respective officers directors and employees may hold positions in any securities mentioned in this report (or in any related investment) and may from time to time add to or dispose of any such securities (or investment).

This report should be read and relied upon at the sole discretion and risk of the client.
The value of any investment made at your discretion based on this report or income therefrom may be affected by changes in economic, financial and/ or political factors and may go down as well as up and you may not get back the full or the expected amount invested. Some securities and/ or investments involve substantial risk and are not suitable for all investors.

This report is being supplied to you solely for your information and may not be reproduced, redistributed or passed on, directly or indirectly, to any other person or published, copied in whole or in part, for any purpose. Neither this report nor any copy of it may be taken or transmitted or distributed, directly or indirectly within India or into any other countries or to any resident thereof. The distribution of this report in other jurisdictions may be strictly restricted and/ or prohibited by law, and persons into whose possession this report comes should inform themselves about such restriction and/ or prohibition, and observe any such restrictions and/ or prohibition.

Neither PPFAS nor its affiliates or their directors, employees, agents or representatives, shall be responsible or liable in any manner, directly or indirectly, for views or opinions expressed in this report or the contents or any errors or discrepancies herein or for any decisions or actions taken in reliance on the report or inability to use or access our service or this report or for any loss or damages whether direct or indirect, incidental, special or consequential including without limitation loss of revenue or profits or any loss or damage that may arise from or in connection with the use of or reliance on this report or inability to use or access our service or this report.

## Contact

Anuj Anandwala

## Now access PPFAS Reports on Bloomberg <br> <PPFS> <Go>

## Parag Parikh Financial Advisory Services Limited

130/132,Great Western Building, 1st Floor, S. B. Marg, Near Lion Gate, Fort, Mumbai - 400001. Tel : 91-22-6140 6555 Fax : 91-22-2284 6553, E-mail : researchcall@ppfas.com<br>www.ppfas.com

