

Business momentum strong

Focus to drive core categories in India, global portfolio

We recently met the senior management of Godrej Consumer Products Ltd (GCPL) and the CEO designate, Mr. Vivek Gambhir. Following are the key takeaways:

- Demand scenario for GCPL continues to remain strong.
- GCPL has not witnessed any signs of re-emergence in soaps for regional/local brands, despite palm oil price correction, as exchange rates have not been favorable for importers.
- The new launch in Crème Hair Color is well-received by trade.
- Cinthol's relaunch has also shown encouraging initial response.
- Focus remains on driving core categories in both India and international portfolio.
- Momentum in Indonesia business remains strong and the high teens growth is sustainable, led by new product launches, distribution expansion and investments in brands.
- Darling's phase II acquisition will drive the international portfolio in FY14. GCPL now owns 51% of 65% of Darling's business.
- We retain a Neutral rating and target price of INR740 due to strong outperformance and rich valuations.

Godrej Consumer Products



Mr. Vivek Gambhir
CEO Designate

Mr. Vivek Gambhir joined Godrej Industries in 2009. Previously he was a partner at Bain & Company, a global management consulting firm. Mr. Gambhir has an MBA from the Harvard Business School and a BS (Computer Science) and BA (Economics) from Lafayette College.

Key long term priorities

Mr. Gambhir stated his key priority would be to drive the existing strategy of focusing on core categories and 3*3 strategy adopted by GCPL for the long term. Building talent and a future-ready sales organization is a key medium term priority, which he believes will help GCPL continue to benefit from the evolving consumption trends in India and its focus on other markets. Though it is not hungry for acquisitions now, growth focus will ensure that an opportunity is not missed if it fits the 3*3 strategy. Company plans to leverage the attractive African opportunity – Africa revenues of INR4.2b in FY12 – through consolidation and integration of Darlings group's businesses. GCPL has initiated the process of cross pollination by leveraging domestic HI technology to launch *Good Knight* insecticides in Nigeria, *Crème Hair Color* technology in Latam (to launch the same in India) etc, which will gather pace going forward.

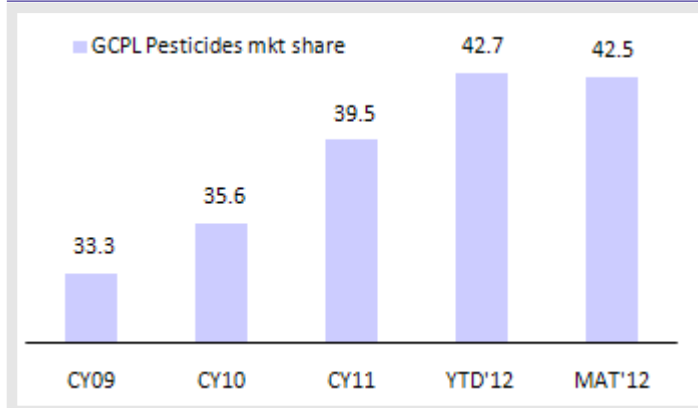
Domestic demand continues to remain strong

Demand for GCPL's domestic categories (soaps, hair colors and home insecticide) continues to remain strong and it expects to maintain the momentum and high teens revenue growth. The slowdown/moderation witnessed in foods and other discretionary categories is not experienced by GCPL. Despite a correction in palm oil prices, company has not seen any incremental threat from regional/local brands in soaps as 1) unfavorable exchange rates have not helped unbranded players. 2) GCPL sees lesser threat of down-trading even if competition from regional players increases.

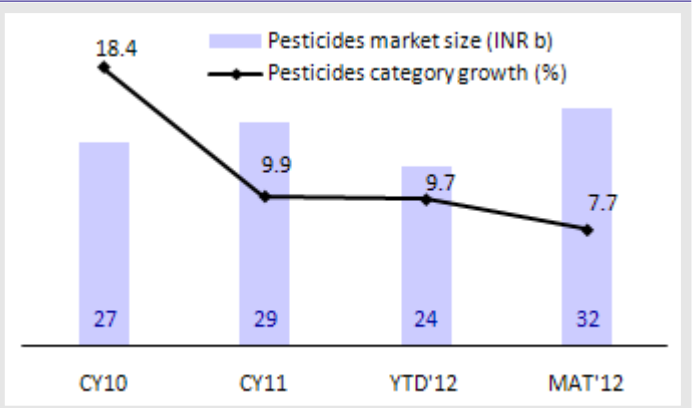
Market share gains in HI to be at a slower pace

GCPL has gained 13% market share in HI since CY09, thus outperforming both Reckitt and S.C.Johnson. Management believes this is on the back of strong marketing initiatives, distribution synergies, post Sara Lee's acquisition, and innovative launches. Though the focus would continue (it is the single largest chunk in domestic business at 45% of revenues), pace of market share gains will slow down as incremental white spaces are shrinking.

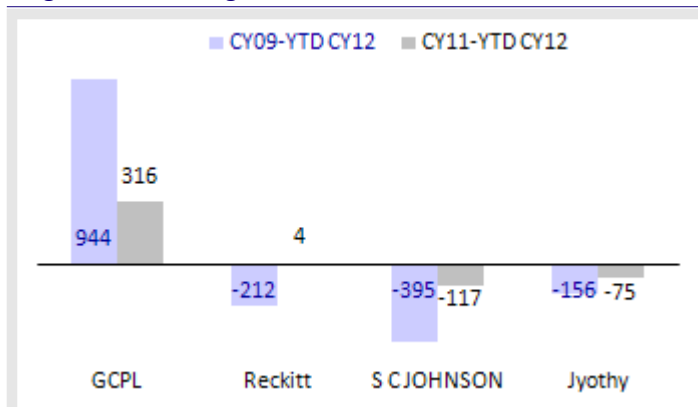
Market share gains in HI to come at slower pace



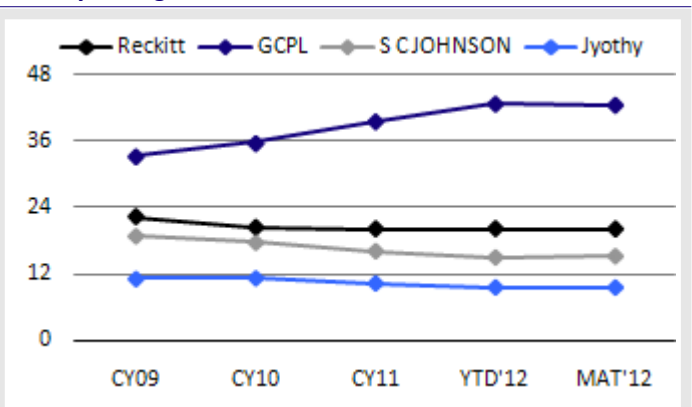
GCPL has clocked 2-3x category growth in HI



Magnitude of share gains in HI...



...only GCPL gained shares in HI

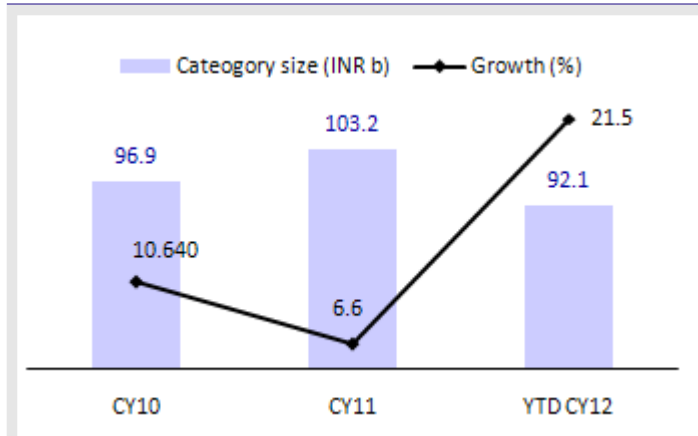


Source: Industry, MOSL

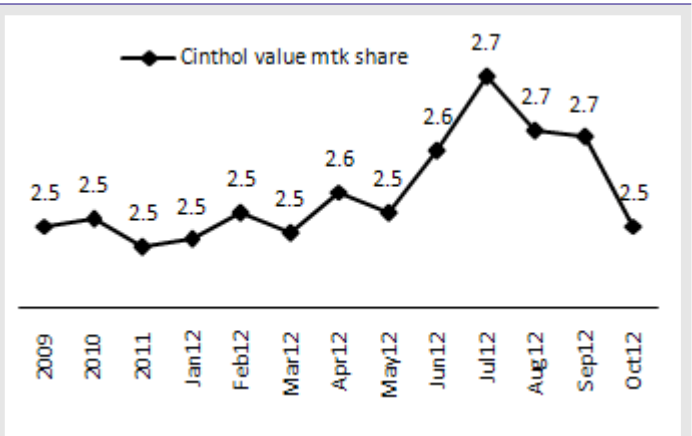
New launches in soaps and hair colors - initial response encouraging
Soaps

GCPL recently relaunched *Cinthol* and according to the management initial trade response has been encouraging. We note that company's market share in *Cinthol* has remained flat over the years. GCPL is trying to position *Cinthol* on the platform of premium youth brands in the crowded personal wash segment. However, the flagship *Godrej No.1* is gaining shares and is benefiting from the premiumization trend in the category – positioning has evolved from a value-for-money soap to beauty soap.

Soaps category is growing at 20%+ in YTD CY12, according to AC Neilson



Cinthol's share remains flat... re-launch can drive an improvement



Source: Industry, MOSL

Hair colors

GCPL also introduced hair colors in crème formats under its *Godrej Expert* brand recently to boost segmental growth. It underperformed the category due to miniscule presence in the premium end – Crème colors. Company intends to drive up-trading of existing powder hair color format users to Crème format. Initial response has been good and management expects to correct the underperformance in this category, going forward.

International business – Indonesia remains strong; Darling’s consolidation to drive FY14 revenues

GCPL’s Indonesian business (Megasari) continues to grow (45% of international revenues), led by strong distribution and market share gains, coupled with innovative product launches (*Hit Magic Paper, Hit One Push Aerosol*). It would continue to report strong high teen revenue growth and be the key constituent of international business. Darling’s phase II consolidation/integration is progressing on schedule and shall drive FY14 revenues. Africa (25% of revenues) would be a key growth driver in the medium term and with Indonesia, will form core of GCPL’s international strategy. In Latam (19% of international revenues), Cosmetics’s integration, new launches and strong investments in marketing will be the focus areas. Company shall also concentrate on utilizing Argencos’ hair care technology and knowhow and cross pollination issues in other geographies.

Domestic and international business

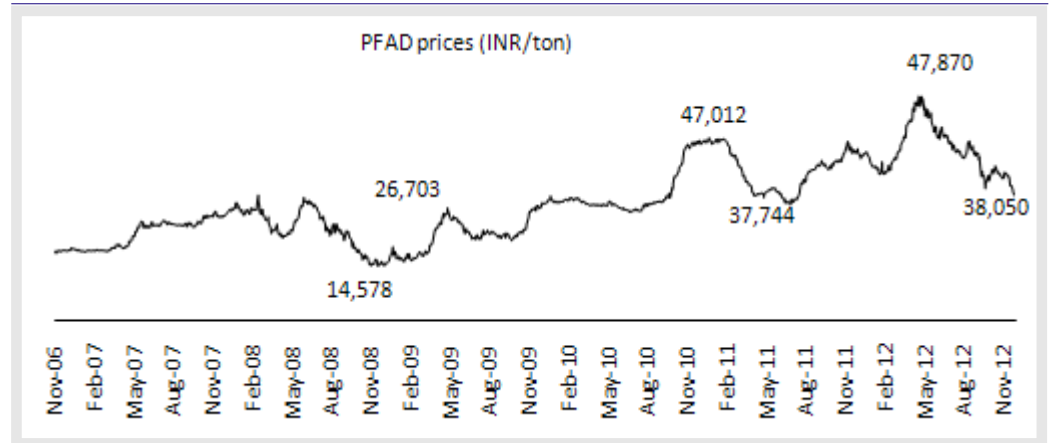
	FY10				FY11				FY12				FY13	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q
Net Sales (INR m)														
Indian Subcontinent	3,398	4,672	4,327	4,294	4,590	6,260	6,450	6,543	6,256	7,760	7,790	7,990	7,777	9,170
GCPL (Standalone)	3,398	3,297	3,160	2,824	3,174	3,120	3,421	3,033	3,714	3,711	3,717	3,497	4,523	4,526
Godrej Home Products	0	2,170	1,167	1,470	1,416	3,000	3,029	3,510	2,542	3,870	3,938	4,493	3,254	4,644
GHPL SL and Bangladesh					140	60			179	135				
International	990	1,084	850	768	1,860	3,370	3,350	3,430	3,715	4,190	5,660	5,240	6,110	6,810
Africa	301	351	451	308	340	440	530	450	430	650	1,860	1,280	1,440	1,630
Latin America	0	0	0	0	120	590	630	640	560	650	820	820	1,080	1,270
Megasari	20	20	50	NA	830	1,820	1,890	1,950	1,940	2,300	2,500	2,550	2,710	3,160
Keyline	669	713	349	NA	570	480	300	390	670	530	430	480	730	680
Middle East					40				115	60	50	110	150	70
Total	4,389	5,756	5,176	5,062	6,450	9,630	9,800	9,973	9,971	11,950	13,450	13,230	13,887	15,980
EBITDA Margin (%)														
Indian Subcontinent	20.0	19.7	19.9	23.0	19.1	18.5	18.6	18.2	15.3	17.3	18.8	19.0	14.1	16.0
GCPL (Standalone)	20.0	19.9	19.7	24.8	19.6	19.8	18.2	-	-	-	-	-	-	-
Godrej Home Products		18.6	20.4	19.6	18.2	18.0	18.9	-	-	-	-	-	-	-
International	18.5	18.2	18.1	11.3	16.8	15.8	14.3	16.6	12.6	17.2	21.0	18.3	14.5	14.3
Africa	21.6	20.0	24.8	NA	17.6	13.6	9.4	11.1	9.3	26.0	31.0	19.3	19.0	16.0
Latin America	NA	NA	NA	NA	7.0	6.8	9.5	14.1	1.8	7.4	9.0	16.3	3.0	4.0
Megasari	15.0	15.0	14.1	NA	21.0	21.0	19.0	20.0	17.0	19.4	20.6	20.7	18.0	19.0
Keyline	17.2	17.4	10.0	NA	12.3	10.4	3.3	10.3	13.4	11.0	6.0	10.5	13.0	9.0
Total	19.7	19.4	19.6	21.2	18.5	17.5	17.1	17.8	14.3	17.3	19.7	18.8	14.3	15.3

Source: Company, MOSL

Palm oil price correction: Soaps margin to improve in 2HFY13

As Palm Fatty Acid Distillate (PFAD) prices have corrected by 26.5% in the past four months, it would drive soaps' margin in 2HFY13. Despite a correction in palm oil prices, GCPL has not seen a re-emergence of unbranded/regional players yet due to unfavorable exchange rates.

PFAD prices down 27% in four months

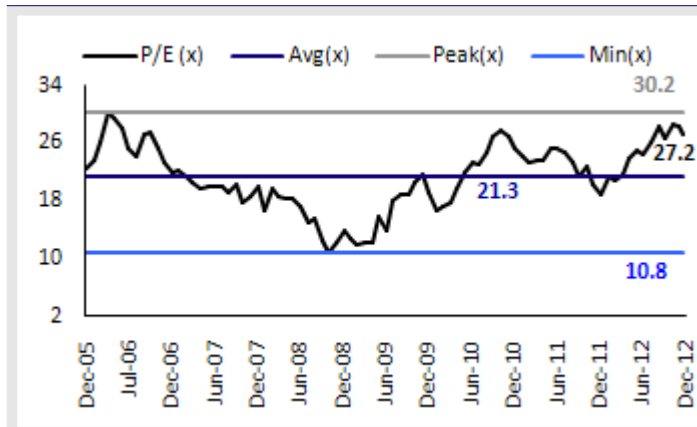


Source: Bloomberg

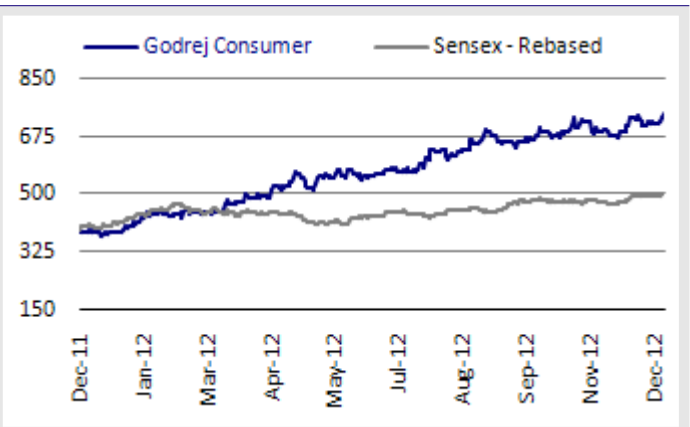
Re-rating scope limited; price factors positives; maintain Neutral

GCPL's execution in the international business has been flawless – synergy capture, innovation and new launches being the key drivers. Performance in household insecticide (significant share gains) has been the highlight of its domestic business. We note GCPL's focus is to increase its presence in the premium space – both soaps and hair colors business. However, at 27x FY14E, we believe valuations reflect the positives. While valuation multiples are at a discount to peers, we believe this is justified given GCPL's higher proportion of overseas business (45%). Maintain **Neutral** with a target price of INR740.

GCPL has undergone significant re-rating...



...and outperformed the markets in CY12 by a wide margin



Income Statement					(INR Million)	
Y/E March	2009	2010	2011	2012	2013E	2014E
Net Sales	13,930	20,412	36,763	48,509	63,147	78,327
Change (%)	26.3	46.5	80.1	32.0	30.2	24.0
Cost of Goods Sold	7,695	9,463	17,072	23,185	29,835	36,668
Gross Profit	6,234	10,949	19,691	25,324	33,311	41,660
Margin (%)	44.8	53.6	53.6	52.2	52.8	53.2
Total Expenditure	11,893	16,329	30,405	39,903	52,009	64,058
EBITDA	2,037	4,083	6,358	8,607	11,138	14,269
Change (%)	-5.0	100.4	55.7	35.4	29.4	28.1
Margin (%)	14.6	20.0	17.3	17.7	17.6	18.2
Depreciation	192	236	499	644	769	895
Int. and Fin. Charges	189	111	436	658	744	827
Other Income-rec.	75	193	643	672	766	880
PBT	2,092	4,199	6,118	7,771	10,391	13,427
Change (%)	11.6	100.8	45.7	27.0	33.7	29.2
Tax	332	796	1,382	2,261	2,234	3,021
Deferred Tax	-34	-8	0	0	-75	-93
Tax Rate (%)	17.5	19.1	22.6	29.1	22.2	23.2
PAT	1,726	3,396	4,736	5,511	8,082	10,313
Change (%)	8.4	96.8	39.5	16.4	46.7	27.6
Margin (%)	12.4	16.6	12.9	11.4	12.8	13.2
Minority interest			0	245	579	856
Group Adjusted PAT	1,726	3,396	4,736	5,266	7,503	9,456
Non-rec. (Exp.)/Income	6	0	411	2,002	0	0
Reported PAT	1,732	3,396	5,148	7,267	8,082	10,313

Balance Sheet					(INR Million)	
Y/E March	2009	2010	2011	2012	2013E	2014E
Share Capital	257	308	324	340	340	340
Reserves	5,458	9,239	16,928	27,796	32,113	37,588
Minority Int				591	1,170	2,027
Networth	5,715	9,547	17,252	28,136	32,454	37,928
Loans	2,775	369	20,032	19,030	16,530	15,030
Deferred Liability	42	66	86	111	186	279
Capital Employed	8,532	9,982	37,369	47,868	50,340	55,264
Gross Block	3,370	4,149	19,148	20,403	25,618	29,843
Less: Accum. Depn.	1,098	1,531	3,775	4,940	5,708	6,603
Net Fixed Assets	2,272	2,617	15,373	15,464	19,910	23,240
Capital WIP	25	8	154	158	150	150
Goodwill	2,132	3,119	15,404	21,454	21,454	21,454
Currents Assets	7,327	9,095	13,774	22,606	22,636	26,943
Inventory	1,675	2,644	4,394	7,839	8,304	10,730
Account Receivables	602	1,153	3,840	4,725	6,055	7,511
Cash and Bank Balance	3,783	3,052	2,269	6,399	4,111	3,936
Loans and Advances	1,178	2,189	3,149	3,143	3,565	4,047
Other Current Assets	90	58	122	500	600	720
Curr. Liab. & Prov.	3,299	5,528	7,335	11,815	13,810	16,523
Account Payables	1,145	1,370	3,331	7,702	9,873	12,107
Other Liabilities	1,834	4,041	3,915	3,684	3,904	4,371
Net Current Assets	4,029	3,567	6,439	10,791	8,825	10,420
Net Assets	8,533	9,982	37,370	47,867	50,340	55,264

E: MOSL Estimates; Consolidated Financials

Ratios

Y/E March	2009	2010	2011	2012	2013E	2014E
Basic (INR)						
EPS	6.7	11.0	14.6	15.5	22.0	27.8
Cash EPS	7.5	11.8	16.2	17.4	24.3	30.4
BV/Share	22.2	31.0	53.3	82.7	95.4	111.5
DPS	4.0	4.1	5.0	4.6	8.0	10.0
Payout (%)	59.7	37.1	34.4	29.7	36.3	36.0

Valuation (x)

P/E				48.3	33.9	26.9
Cash P/E				43.0	30.7	24.6
EV/Sales				5.5	4.2	3.4
EV/EBITDA				31.0	23.9	18.6
P/BV				9.0	7.8	6.7
Dividend Yield				0.6	1.1	1.3

Return Ratios (%)

RoE	30.2	35.6	27.5	18.7	23.1	24.9
RoCE	27.0	45.2	20.1	20.7	25.2	29.0

Working Capital Ratios

Debtor (Days)	16	21	38	36	35	35
Asset Turnover (x)	6.1	7.8	2.4	3.1	3.1	3.3

Leverage Ratio

Debt/Equity (x)	0.5	0.0	1.2	0.7	0.5	0.4
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Cash Flow Statement

(INR Million)

Y/E March	2009	2010	2011	2012	2013E	2014E
OP/(Loss) before Tax	2,037	4,083	6,358	8,607	11,138	14,269
Other Income	436	464	643	672	1,397	1,423
Interest Paid	189	111	436	658	744	827
Direct Taxes Paid	332	796	1,382	2,261	2,234	3,021
(Inc)/Dec in WC	380	270	3,654	223	322	1,770
CF from Operations	1,573	3,369	1,528	6,138	9,234	10,074
Extraordinary Items	6	0	411	2,002	0	0
Inc in FA	-258	763	15,144	1,260	5,207	4,225
Pur of Investments	74	595	-670	0	0	0
Goodwill	1,176	986	12,285	6,050	0	0
CF from Investments	-986	-2,344	-26,348	-5,309	-5,207	-4,225
Issue of Shares	3,601	51	4,976	6,567	0	0
Inc in Debt	904	-2,406	19,663	-1,002	-2,500	-1,500
Dividend Paid	1,206	1,490	1,966	1,820	3,185	3,982
Other Item	-529	2,087	1,365	-443	-630	-543
CF from Fin. Activity	2,771	-1,758	24,038	3,301	-6,315	-6,025
Inc/Dec of Cash	3,357	-732	-783	4,130	-2,288	-175
Add: Beginning Balance	426	3,783	3,052	2,269	6,399	4,111
Closing Balance	3,783	3,051	2,269	6,399	4,111	3,936

E: MOSL Estimates

NOTES

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