



India Equities
FMCG

Quarterly Update

Godrej Consumer Products Limited

BUY

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CMP **Rs 350**
Target Price **Rs 406**

Investment horizon 12 months
Sensex 17,957
Nifty 5,398

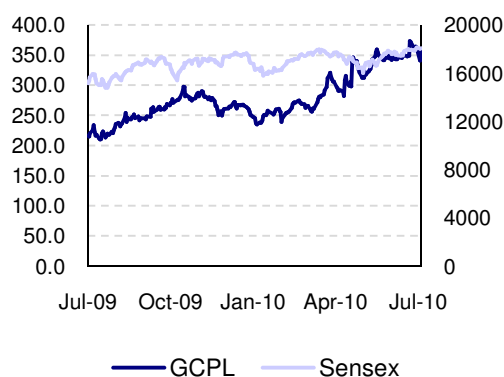
Stock Details

BSE Code	532424
NSE Code	GODREJCP
Reuters Code	GOCP.BO
Bloomberg Code	GCPL IN
Market Cap (Rs cr)	10,479.5
Beta	0.31
52 W High / Low (Rs)	396.0 / 203.5
Avg Daily Volume	79,255
Face Value (Rs)	1.00

Shareholding Pattern (%)

Promoters	71.40
MF/Banks/Indian FIs	0.82
FII / NRIs / OCBs	21.08
Indian Public	6.70

Price Chart



Performance Highlights

Domestic operations slow down: Godrej Consumer Products Limited (GCPL) showed growth in consolidated net sales to Rs 643.1cr during the quarter. However, the domestic operations were weak on account of a high base effect in Q1FY2010 and decline in demand due to food inflation pressure. The soaps category declined by 9% while the hair colour category grew by 4% during the quarter. The company did not undertake any price hikes during Q1FY2011 which makes the growth entirely volume driven.

International acquisitions to be value accretive: GCPL has expanded its international presence through its aggressive acquisition drive. The company is now looking to extract synergistic benefits from these acquisitions and expects the international acquisitions to start contributing towards net profit in FY2011. The ability to successfully integrate the international acquisitions would drive future growth for the company.

Valuation: We have used Relative Valuation based on average of EV/EBIDTA and Price/Earnings (P/E) ratios. The stock is currently trading at EV/EBIDTA of 19.3x FY2011E and P/E of 21.4x FY2011E earnings. The domestic sales growth would remain under pressure due to increased competition for market share and growth being entirely volume driven (as companies avoid taking price hikes). However, the international operations are expected to contribute positively and grow net profit. **We recommend Buy on the stock with a Target Price of Rs 406.**

Exhibit 1: Quarterly Financials

Particulars	Q1FY2011	Q1FY2010	YoY(%)	Q4FY2010	QoQ(%)
Revenue	643.1	438.9	46.5	509.2	26.3
Other Income	10.6	10.1	4.4	12.2	(13.3)
Total Income	653.7	449.0	45.6	521.4	25.4
Total Expenditure	524.0	352.4	48.7	401.7	30.4
EBIDTA	119.1	86.4	37.9	107.5	10.8
<i>EBIDTA Margin (%)</i>	<i>18.5</i>	<i>19.7</i>	-	<i>21.1</i>	-
Depreciation	8.4	5.2	61.8	6.1	38.6
EBIT	121.3	91.4	32.8	113.7	6.7
Interest	10.5	3.8	178.0	2.7	288.1
Profit before Tax	110.8	87.6	26.5	111.0	(0.1)
Tax	34.8	17.9	94.0	19.2	80.9
Net Profit	76.1	69.7	9.2	91.8	(17.1)
<i>PAT Margin (%)</i>	<i>11.8</i>	<i>15.9</i>	-	<i>18.0</i>	-
EPS	2.5	2.7	-	3.1	-

Source: Company data, Parsoli Research



GCPL's consolidated net sales increased to Rs 643.1cr during Q1FY2011 on account of revenue contribution from international operations, while the domestic business was subdued

The company, through its international acquisitions, has now expanded its presence into new markets like Indonesia, Nigeria and Latin American region

During the quarter, Keyline Brands' revenues declined by 20.9% while the African and Latin American businesses performed well

Key Updates

Consolidated revenues increase; domestic sales disappointing

During Q1FY2011, GCPL's consolidated net sales were up at Rs 643.1cr. Since the beginning of FY2011, the company has completed a number of acquisitions including PT. Megasari Makmur Group (Indonesia), Tura Group (Nigeria), Issue group and Argencos in Argentina and the balance 51% stake in Godrej Sare Lee Limited (GSSL). While the acquisitions of Megasari, Issue and GSSL have been appropriated in Q1FY2011 revenues (in accordance with the date of acquisition), Tura and Argencos' revenues would be incorporated from next quarter onwards. Thus, during the quarter, the international revenues jumped up by 84% yoy to Rs 186.0cr approximately. However, due to the impact of acquisitions on revenues, the yoy results are not comparable.

The growth in the domestic operations was rather slightly subdued with net sales at Rs 459cr. The domestic sales were impacted by decline in sales growth in the soaps category (which contributed 65.3% of standalone turnover in FY2010). The soaps category showed a revenue decline of 9% yoy. This growth was only on account of volumes and there were no price hikes taken during the quarter. According to the management, the negative growth was mainly due to two reasons. During FY2010, on account of recovery from the economic slowdown, the sales in soaps turned buoyant which has led to a larger base effect in Q1FY2011. Also, in FY2010, the wholesalers and distributors stocked up large amounts of inventory anticipating a rise in commodity prices. The hair color category showed a 4% yoy growth in sales.

Expansion in International business

In line with the company's 3x3 strategy of establishing presence in 3 continents, namely, Asia, Africa and Latin America through 3 core categories - home care, personal wash and hair care; the company has completed acquisitions across all the categories and regions.

The acquisition of Megasari group was completed in May 2010 and the company enjoys number two position in household insecticides markets and leadership positions in air care and wipes markets in Indonesia. The remaining 51% stake in GSSL was acquired by GCPL in May 2010 which has now been renamed as Godrej Household Products Limited (GHPL). Issue Group, a leader in the Argentine hair colour market, and Tura Group, a leading beauty brand in Nigeria with products including soaps, moisturising lotions and skin-toning creams, were acquired in June 2010. Argencos which has expanded GCPL's Latin American hair care portfolio was acquired in July 2010. The full impact of all these acquisitions, in revenue and profit terms, would be noticeable from next quarter onwards.

Exhibit 2: International Business Performance

	Rs cr	
	FY2010	FY2009
U.K. (Keyline Brands)	53.0	67.0
Godrej Global Middle East (GGME)	4.0	4.0
Africa (combined revenues of Kinky Group, Rapidol and Tura)	34.0	~30.0
Latin America (combined revenues of Issue Group and Argencos)	12.0	-

Source: Company data, Parsoli Research



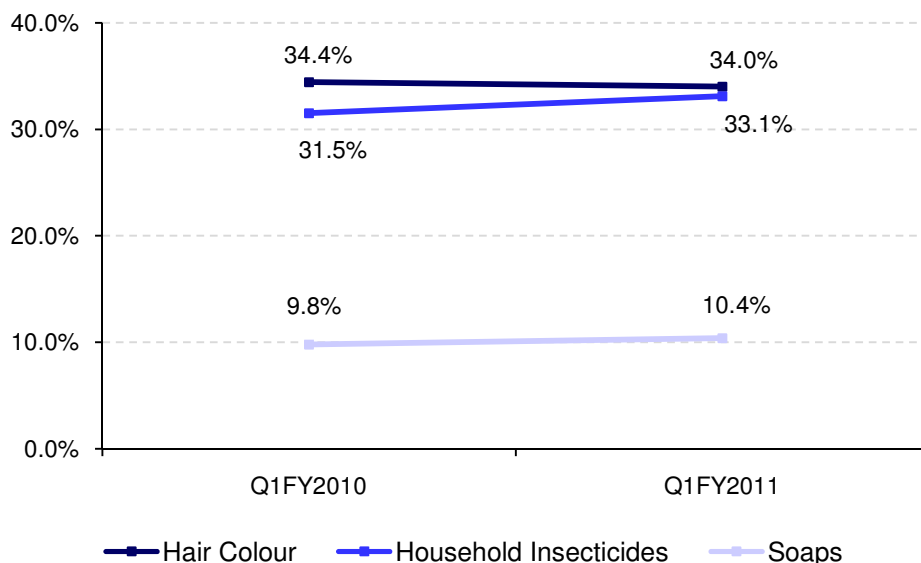
During Q1FY2011, the company gained market share by 60bps yoy in the soaps category and 160bps yoy in the household insecticides segment

The U.K. business revenues declined 20.9% yoy on account of high base effect due to H1N1 infection in Q1FY2009 which resulted in higher sales of Cuticura hand hygiene products. In addition, the rupee growth has been deflated by around 10% due to weakness in pound sterling. The African businesses grew to Rs 34cr and this includes Kinky Group, Rapidol and the newly acquired Tura Group (w.e.f. 16 June 2010). Rapidol continues to enjoy its market leadership position in the ethnic hair colour market in South Africa. During the quarter, the first Kinky 'store within store' concept was launched. In Latin America, the company acquired Issue Group (w.e.f. 2 June 2010) and Argencos (w.e.f. 8 July 2010) whose combined revenues totaled US\$ 43mn. During the quarter, Issue Group's revenues (from 2 June 2010) worth Rs 12cr were incorporated in the consolidated results.

Market share across categories

During Q1FY2011, the company maintained its position of being the second largest toilet soaps player. Though the sales in the soaps category saw a decline due to destocking at the distributor and wholesaler level and the impact of high food inflation, the company gained market share by 60bps yoy to 10.4% during the quarter. In the hair colour category, though GCPL continues to enjoy market leadership, the market share declined by 40bps yoy to 34.0% in Q1FY2011. In the household insecticides segment, GHPL continues to enjoy market leadership. During the quarter, the company increased its market share by 160bps yoy to 33.1% in Q1FY2011 from 31.5% in Q1FY2010

Exhibit 3: Change in Market Share



Source: Company data, Parsoli Research

Profit margins impacted by rising raw material costs

The domestic profit margins came under pressure due to rise in raw material costs which was not offset by price hikes in order to save demand

During the quarter, GCPL's operating profit went up by 37.9% yoy to Rs 119.1cr on account of the increase in EBIDTA from recent acquisitions. The EBIDTA margin, however, was impacted and declined by 117bps yoy to 18.5% in Q1FY2011. This was due to a yoy increase of 609bps in raw material prices and 25bps in advertisement expenditure which was only partially offset by the 168bps decline in employee expenses. The total expenditure, consequently, went up to 81.5% of sales during the quarter.



During the quarter, the EBIDTA and PAT margins declined to 18.5% and 11.8%, respectively

Exhibit 4: Profit Margins			%
	Q1FY2011	Q1FY2010	bps change yoy
EBIDTA	18.5	19.7	117
PAT	11.8	15.9	405

Source: Company data, Parsoli Research

Exhibit 5: Cost Analysis			% of sales
	Q1FY2011	Q1FY2010	bps change yoy
Raw Material	39.7	33.6	609
Employee Expenses	6.8	8.5	(168)
Advertisement Expenses	10.1	9.9	25
Total Expenditure	81.5	80.3	117

Source: Company data, Parsoli Research

The PAT for the quarter went up by 9.2% yoy to Rs 76.1cr (excluding compensation of Rs 40.3cr received by GHPL from Sara Lee on termination of manufacturing and distribution licensing agreement). The PAT margin, however, went down by 405bps yoy to 15.9% during Q1FY2011 on account of lower operating profit and higher taxes due to increase in MAT rate. However, the EBIDTA and PAT numbers are not comparable due to the effect of acquisitions on revenue and profitability.

The profit margins have come down from the exceptionally high levels of FY2010 as the domestic operations have been under pressure due to higher raw material prices which have not been offset by price hikes and food inflation which has led to a shrink in demand of soaps from lower income pockets. The management is not looking to take any price hikes and believes that the margins would get tapered down to more realistic levels during FY2011.

Drawing synergies from international acquisitions

GCPL's aggressive inorganic expansion policy has resulted in extending its operations to new markets including Latin America, Indonesia and other regions in Africa. Now that the company has completed these acquisitions, the management expects to draw synergistic benefits on factors like sourcing, products, etc. Going forward, the management expects these international acquisitions to be EPS accretive and improve FY2011 PAT by about Rs 60cr. The management would now focus on integrating the international acquisitions into the company structure.

The profit margins would get tapered down on account of food inflation during FY2011

GCPL now faces the task of integrating new acquisitions into the company structure which would pave the path for its future growth



Going forward, a continued good monsoon and better agricultural growth would bring down inflation and improve demand across FMCG categories

We recommend Buy on the stock with a price target of Rs 406

Outlook & Valuation

GCPL's Q1FY2011 performance for the domestic operations has been weak due to inflationary pressures and high base effect. Going forward, the domestic scenario is expected to be more competitive due to players like HUL (which had lost market share in FY2010) and ITC trying to gain market share. In addition, domestic performance is expected to remain subdued in Q2FY2011 also. The management expects revenues to improve in H2FY2011 as good monsoon and better agricultural growth alleviate food inflation pressure. Under the international operations, while GCPL has been aggressive in undertaking inorganic growth, the more important part would be to draw synergies out of these operations. The international operations are expected to be value accretive and contribute to profitability while the domestic operations remain under pressure during the short term.

We expect the company's revenues to grow at a CAGR of 40.9% (FY2010-12) to Rs 4,050.7cr in FY2012. The profit margins would be under pressure as they taper down from the extraordinary high levels of FY2010. We expect the EBIDTA margin to stand at 17.9% and the PAT margin at 14.2% during FY2011.

Relative Valuation

GCPL currently trades at an EV/EBIDTA multiple of 19.3x FY2011E and 15.4x FY2012E. When considering the current EV/EBIDTA multiple, the stock trades above the industry average of 21.9x. We believe that the company's EBIDTA margin will stand at 17.9% in FY2011. We have assigned a multiple of 21.5 to value the stock. Using this target multiple on our FY2011 EBIDTA estimates of Rs 615.6cr, we arrive at a target price of Rs 395 per share.

When considering the P/E multiple, the stock currently trades at 21.4x FY2011E and 17.7x FY2012E earnings. The industry average multiple for the peer group stands at 31.4 and GCPL currently trades at 31.9. We expect the company's EPS to grow on account of benefits from acquisitions and stand at Rs 19.7 in FY2012. We are assigning a multiple of 25.5 to value the stock. Employing this target multiple on our FY2011 EPS estimates of Rs 16.4, we arrive at a target price of Rs 417.

We recommend Buy on the stock with a price target of Rs 406 representing an upside of 16.1%.

Exhibit 6: Valuation Summary

Pricing Methodologies	Weight Assigned	Target Price
Target price using EV/EBIDTA approach	50.0%	395.0
Target price using P/E approach	50.0%	417.1
Weighted average target price (Rs)		406.0
Current Market Price (CMP)		349.8
Upside from current levels (%)		16.1

Source: Company data, Parsoli Research



Financial Statements

Exhibit 7: Profit & Loss Statement					Rs cr
	FY2008	FY2009	FY2010	FY2011E	FY2012E
Net Sales	1,102.6	1,393.0	2,041.2	3,439.0	4,050.7
<i>% chg</i>	15.9	26.3	46.5	68.5	17.8
Total Expenditure	888.1	1,185.8	1,633.9	2,823.4	3,321.6
<i>% chg</i>	15.1	33.5	37.8	72.8	17.6
EBIDTA	214.5	207.1	407.3	615.6	729.1
<i>Margin (%)</i>	19.5	14.9	20.0	17.9	18.0
Other Income	6.0	40.2	47.3	89.4	99.6
Depreciation & Amortisation	18.2	19.2	23.6	46.9	52.8
Interest	14.8	18.9	11.1	49.4	42.0
PBT	187.5	209.2	419.9	608.8	733.9
<i>Margin (%)</i>	17.0	15.0	20.6	17.7	18.1
Total Tax	28.3	36.6	80.3	118.7	143.1
<i>(% of PBT)</i>	15.1	17.5	19.1	19.5	19.5
PAT	159.2	172.6	339.6	490.1	590.8
<i>% chg</i>	18.7	8.4	96.7	44.3	20.6
<i>Margin (%)</i>	14.4	12.4	16.6	14.2	14.6

Source: Company data, Parsoli Research

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