

May 24, 2013

BSE Code: 532424 NSE Code: GODREJCP Reuters Code: GOCP.NS Bloomberg Code: GCPL:IN

Godrej Consumer products Ltd (GCPL) serves three major segments of home care, hair products and soaps. It is one of the largest marketers of toilet soaps in the country and is also a leader in hair colours and household insecticides. Its brands like Good Knight, Cinthol, Godrej No. 1, Godrej Expert Powder hair colour are ranked among the '100 Most Trusted Brands' by Economic Times – Brand Equity 2012.

### Investor's Rationale

GCPL management is confident of achieving ~26% revenue CAGR over the next 10 years. Around 10% growth is envisaged through the inorganic route, which translates into a 10x jump in revenues by 2021. GCPL's successful acquisition integration in the past makes it confident of its ability to derive synergy benefits.

The company in the recent past has been very proactive on the acquisition front, GCPL, as a part of its strategy to strengthen its presence in the hair colour market in Latin America, has acquired 60% stake in Chile based Cosmetica Nacional which enjoys greater than 30% market share (by volume) in the hair colorant space. Moreover, GCPL has acquired a 51% stake in African Darling Group in a move to become a leading player in the fast growing African ethnic hair care market. The successful acquisitions are expected to further enhance the market position of GCPL.

GCPL has successfully launched its latest soap variant, Godrej No. 1 Aloe Vera and White Lily, range of Cinthol shower gels and Godrej Expert rich crème hair colour. Moreover, its recent launch of HIT Anti-Roach gel has received good response. The company, with a wider distribution network of over 4.1 mn outlets, has leveraged its strong network developed over the years to penetrate the market in the country.

The company's 3x3 strategy that focuses on international markets through its three core categories is delivering desired results. GCPL has been able to grab a strong leadership position in insecticides segment in Indonesia, hair colors in South America and hair extensions in Africa. Besides, successful divestment of its non-core food business in Indonesia will enable the company to focus on its key brands - Hit Stella and Mitu and further accelerate its growth trajectory.

GCPL witnessed a rise in consolidated net sales by 30% YoY at ₹17,194 mn in Q4FY'13 led by considerable growth in all of its segments. The company posted a 73% YoY rise in net profit to ₹3,341 mn in Q4FY'13 on the back of higher other income and lower taxation charges. EBITA, on the other hand, grew only by 12% YoY to ₹2,791 mn as fall in raw material cost (as a percentage of sales) by 929bps YoY is counterbalanced by rise in other expenses as well as advertisement and publicity expenses.

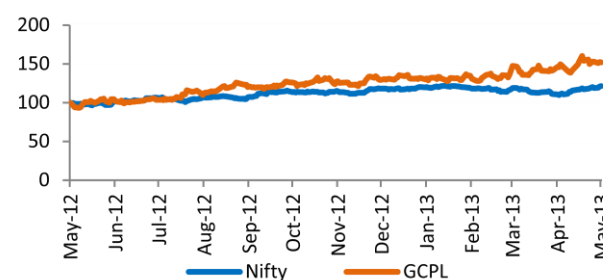
### Market Data

<b>Rating</b>	<b>BUY</b>
<b>CMP (₹)</b>	825.3
<b>Target (₹)</b>	<b>949</b>
<b>Potential Upside</b>	~15.0%
<b>Duration</b>	Long Term
Face Value (₹)	1
52 week H/L (₹)	965.0/527.5
Adj. all time High (₹)	872.8
Decline from 52WH (%)	(14.5)
Rise from 52WL (%)	56.5
Beta	0.5
Mkt. Cap (₹ bn)	280.6
Enterprise Value (₹ bn)	291.4

### Fiscal Year Ended

Y/E	FY12A	FY13A	FY14E	FY15E
Revenue (₹ bn)	48.7	64.1	78.7	94.9
EBITDA (₹ bn)	8.6	10.2	13.0	15.7
Net Profit (₹ bn)	7.3	8.0	8.9	10.6
Adj EPS (₹)	16.2	19.6	26.3	31.3
P/E (x)	51.0	42.1	31.4	26.4
P/BV (x)	9.25	7.97	6.72	5.66
EV/EBITDA (x)	33.9	28.7	22.5	18.6
ROCE (%)	18.7	17.7	19.7	19.9
ROE (%)	18.1	18.9	21.4	21.4

### One year Price Chart



### Shareholding Pattern

	Mar'13	Dec'12	Diff.
<b>Promoters</b>	63.51	63.51	-
<b>FII</b>	28.22	27.55	0.67
<b>DII</b>	1.17	1.36	(0.19)
<b>Others</b>	7.10	7.58	(0.48)

*GCPL operates in three primary segments of home care, hair products and soaps.*

*It is one of the largest marketers of toilet soap and a leader in household insecticides and hair colour.*

*The company holds 37% and 29% market share of home insecticides and hair colour market, respectively.*

*GCPL has expanded its foot prints internationally in places like Asia, Africa and Latin America.*

### A dominant player in household and personal care products

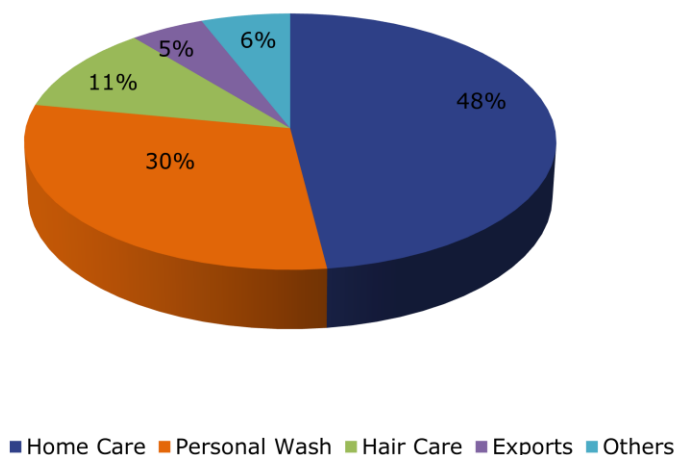
Godrej Consumer Products Ltd (GCPL), established in 2001, is a leading player in the Indian FMCG market. The company is engaged in manufacturing Household and Personal Care products. It operates in the three primary segments - home care, hair products and soaps. Its main brands, which include Good Knight, Hit, Jet, Cinthol, Godrej No. 1, Godrej Expert, Fair Glow etc, are household names across the country. GCPL is one of the largest marketers of toilet soaps in the country and is also a leader in household insecticides and hair colour.

The home insecticide business segment, in which GCPL enjoys around 37% market share worth ₹35 bn in India, is growing at a rate of 20% annually due to low penetration in both urban and rural areas. Its 'Hit' and 'Good Knight' brands gives a good competition to Reckitt Benckiser's 'Mortein' and Johnson's 'All Out', each of which currently hold approximately 17% market share.

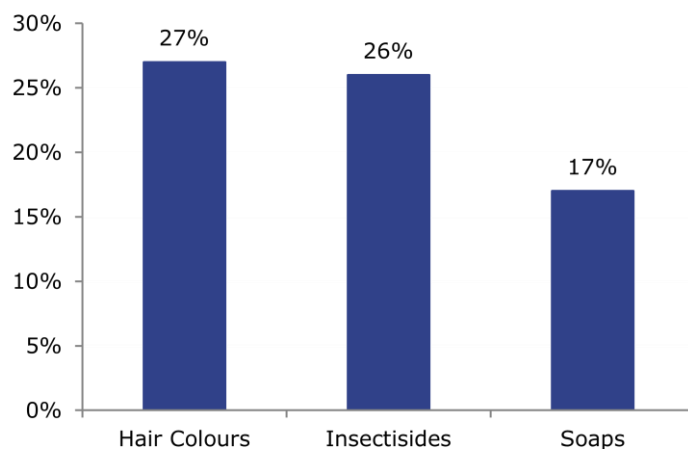
GCPL is very active in domestic hair colour market. The company enjoys 29% market share compared to other premium-priced competitors. Within the low-priced category, Godrej enjoys pricing power as it sells at a premium of 5%-10% to other regional powder products and is a price setter in this category. The overall hair colour market also has low penetration of approximately 50% across India and GCPL's low price positioning has driven trials and new customer conversions by helping consumers switch from homemade remedies.

While concentrating on the Indian market, GCPL has aggressively expanded via acquisitions into other emerging markets across Asia, Africa, Latin America and Europe. Its key international businesses include Rapidol, Kinky, Darling Group, Tura in the African continent, Godrej Global Mideast FZE in UAE, Megasari Makmur Group in Indonesia, Issue Group and Argencos in Argentina and Keyline Brands in UK.

**Balanced Category Mix**



**Indian Business – Gross Sales Growth (Q4FY'13)**

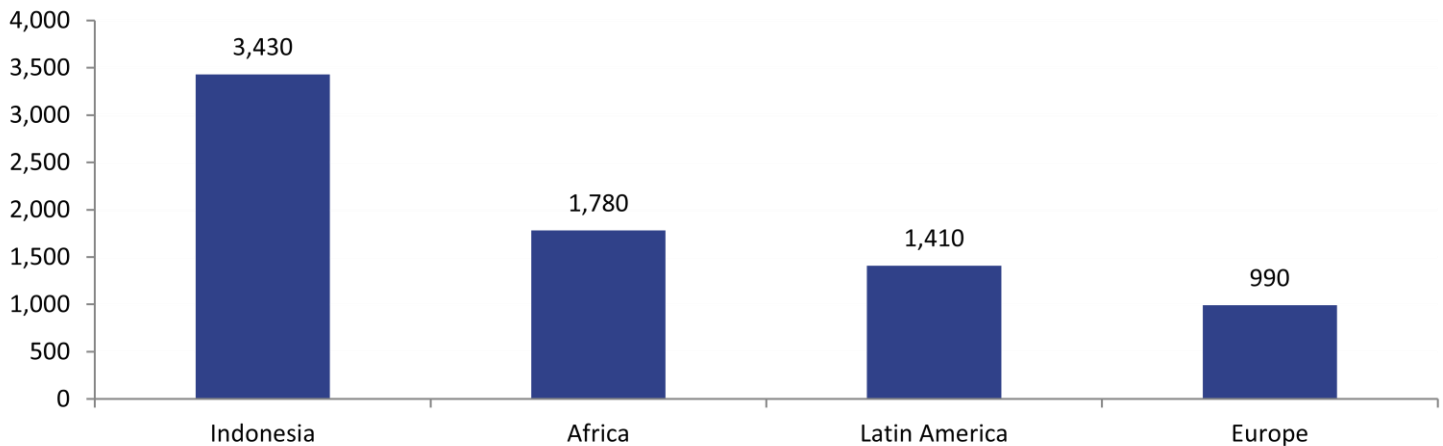


*3x3 strategy enables GCPL to penetrate deeper in Asia, Africa and Latin America.*

### Focus on '3x3 strategy' to strengthen market share across geographies

The company's focus on its '3x3 strategy' enables it to penetrate deeper in three emerging geographies - Asia, Africa and South America, with three product segments - personal wash, hair care and insecticides. It has a strong leadership positions in insecticides in Indonesia, hair colors in South America and hair extensions in Africa. GCPL has acquired market-leading brands in emerging-markets, most of which operate in categories that do not face tough competition from global players. We expect GCPL to use its expanded distribution footprint to introduce other key products in its portfolio in these geographies. In Q4FY'13, its Indonesian business, Megasari Makmur group registered strong sales growth of 35% YoY, with sales at ₹3,430 mn, led by continuous marketing investments, new product launches and distribution expansion.

### Strong Sales across Geographies (in ₹mn)

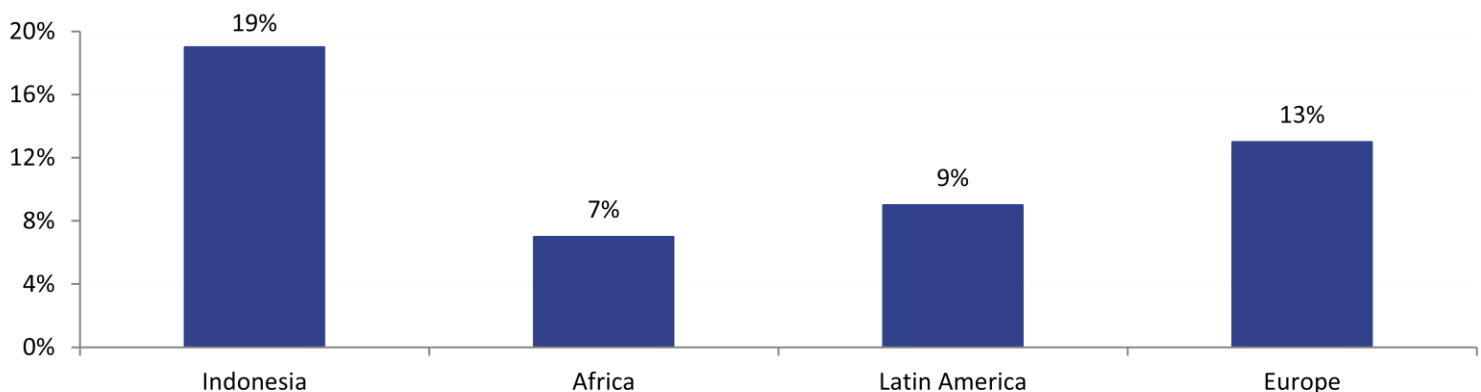


*Margin in African business contracted mainly due to temporary closure of business in Kenya, liquidation of stocks and continued marketing investments.*

In Africa, GCPL's sales stood at ₹1,780 mn. However, the margins took a hit mainly due to closure of business for around 4 weeks in Kenya resulting in sales loss. Moreover, liquidation of stocks at discounted prices in Kinky's hair extension business with intent of closing non-profitable stores and continued marketing investments for new product launches in the continent were another reasons for contraction in margins.

Sales in Latin America stood at ₹1,410 mn in Q4FY'13, led by continuous marketing investments, new product launches, and Chile business consolidation, while in Europe, sales stood at ₹990 mn, on the back of innovation and brand investments.

### EBITDA Margins across geographies



In Q4FY'13, Net Sales up 30% YoY to ₹17,194 mn, on higher growth across segments. Net Profit, on the other hand, surged 73% YoY to ₹3,341 mn on higher other income.

### Robust numbers in Q4FY'13 backed by new product launches

GCPL witnessed an upsurge in consolidated net sales by 30% YoY to ₹17,194 mn in Q4FY'13 led by considerable growth in all of its segments. In homecare segment, the household insecticide segment registered a growth of 26% YoY, aided by a positive response to the newly launched 'HIT Anti Roach Gel'. The personal wash segment reported a growth of 17% YoY, as the initial response to the GCPL's new variant under Godrej no. 1 – 'Aloe Vera and White Lily' has been quite encouraging. Strong turnaround in the hair care segment was seen, sales up by 27% YoY, led by the launch of 'Godrej expert rich creme hair colour'. GCPL posted a 73% YoY rise in net profit to ₹3,341 mn in Q4FY'13 on the back of higher other income, up by 34% YoY to ₹242 mn and lower taxation charges, down by 12% YoY to ₹531 mn. EBITA, on the other hand, grew only by 12% YoY to ₹2,791 mn as fall in raw material cost (as a percentage of sales) by 929bps YoY is counterbalanced by rise in other expenses as well as advertisement and publicity expenses by 274bps and 118bps YoY, respectively. Consequently, EBITDA margin contracted 254bps YoY to 16% in Q4FY'13 against 19% in Q4FY'12.

	Q4FY'13	Q4FY'12	YoY (%)	Q3FY'13	QoQ (%)
<b>Revenue</b>	<b>17,194</b>	<b>13,249</b>	<b>30</b>	<b>16,956</b>	<b>1</b>
Expenses	14,403	10,763	34	14,108	2
<b>EBITDA</b>	<b>2,791</b>	<b>2,486</b>	<b>12</b>	<b>2,849</b>	<b>(2)</b>
EBITDA Margin (%)	16	19	(254bps)	17	(57bps)
Foreign Exchange gain/(loss)	(48)	3	-	(27)	-
Other Income	242	181	34	145	66
Depreciation	160	155	3	205	(22)
Interest	222	186	19	189	18
<b>PBT</b>	<b>2,602</b>	<b>2,328</b>	<b>12</b>	<b>2,574</b>	<b>1</b>
Tax	531	601	(12)	674	(21)
Exceptional Items	1,289	250	417	0	-
Minority Interest	(19)	(50)	-	(178)	-
<b>Net Profit</b>	<b>3,341</b>	<b>1,926</b>	<b>73</b>	<b>1,722</b>	<b>94</b>
Net Profit Margin %	19	15	489bps	10	928bps
EPS (₹)	10	6	68	5	94

Forayed into the air care category with a new brand, 'aer', signaling its re-entry into the segment.

### Re-entry into the domestic air freshener category

Godrej Consumer (GCPL) has re-entered the domestic ₹3 bn air care market through the launch of 'aer'. The domestic air care market, which is growing over 20% YoY, is something what the company wants to cash on it. With increasing consciousness amongst consumers to enhance their lifestyle, this re-entry is likely to be a new growth driver for GCPL and will also strengthen its home care portfolio. However, GCPL will face competition from well established players like Dabur, P&G and Reckitt Benckiser. GCPL is already present in the air care market in Indonesia through its brand Stella (market leader) and the technical knowhow is likely to benefit GCPL in the India market.

GCPL has launched products across its various categories - HIT Anti-Roach gel, Godrej no. 1 soap variants, Godrej Expert rich crème hair colour, range of Cinthol shower gels etc.

### Consistent focus on product innovation to meet consumer's needs

GCPL, a dominant player in household insecticides, soaps and hair colors, has made several new launches in FY'13. The company has come up with their latest innovation in the household insecticides category with the launch of new HIT Anti-Roach gel. GCPL is the dominant leader in the 3300+ crore household insecticide market, with nearly half of the market and leadership across all the major formats Coils, Liquid Vaporizer and Aerosols. The gel based insecticide helps in killing cockroaches and gives relief for upto 45 days with each application. The product was launched in a move to aware customers about the diseases spread by pests and providing innovative & convenient solutions to get rid of pests. Moreover, it has successfully launched other products like latest soap variants Godrej no. 1 Aloe Vera and white lily and Rosewater and almond soaps, Godrej Expert rich crème hair colour, range of Cinthol shower gels etc. With wider distribution network of over 4.1 mn outlets, the company is well positioned to lead market penetration efforts in a country.

### Strong Turnaround in Hair Colors growth

YoY Growth %	Q1FY'13	Q2FY'13	Q3FY'13	Q4FY'13
Reported Category	21%	23%	21%	13%
Hair Colours	5%	10%	17%	27%

During FY'13, GCPL has acquired 51% stake African hair care company, in Darling Group Holdings and 60% stake in Chilean Cosmetica Nacional.

GCPL's UK unit, Keyline Brands Ltd has acquired UK's fourth largest women's deodorant brand by market share, Soft and Gentle from Colgate-Palmolive Co.

### GCPL – on an expansion spree in order to enhance its capabilities globally

The FMCG major has been on an acquisition spree globally which has led to higher earnings as well as re-rating of the stock in recent times. In November 2012, the company has acquired 51% stake in the African hair care company Darling Group Holding's business which will help in scaling up its operations in the region and will strengthen its position in the hair care market. Darling Group Holdings operates in 14 countries across Africa, selling hair extension products under brand names like 'Darling' and 'Amigos'. The acquisition of the balance stake will be completed in phases spread over the next 3 to 5 years. Moreover, in April 2012, the company has completed the acquisition of 60% stake in the Chile based leading hair colorant and cosmetics company, Cosmetica Nacional. The product portfolio of Cosmetica Nacional includes some of the most popular colour cosmetics which would enhance GCPL's value as well. Cosmetica Nacional exports to 7 countries in Latin America and so this acquisition will help the company to strengthen its foothold in the region. Additionally, in December 2012, GCPL's UK unit, Keyline Brands Ltd has acquired UK's fourth largest women's deodorant brand by market share, Soft and Gentle from Colgate-Palmolive Co. The acquisition will enable the company to add profitable scale to its UK business.

Between 2010 and the first half of 2012, GCPL has acquired 7 African, Asian and Latin American firms in the business of hair colour, insecticides and personal care. It is currently looking at an Israeli insecticide company as a next prospective buy and also scanning opportunities in Uruguay and Paraguay.

*GCPL expects its international business to grow at a CAGR of ~34% over FY'13-15.*

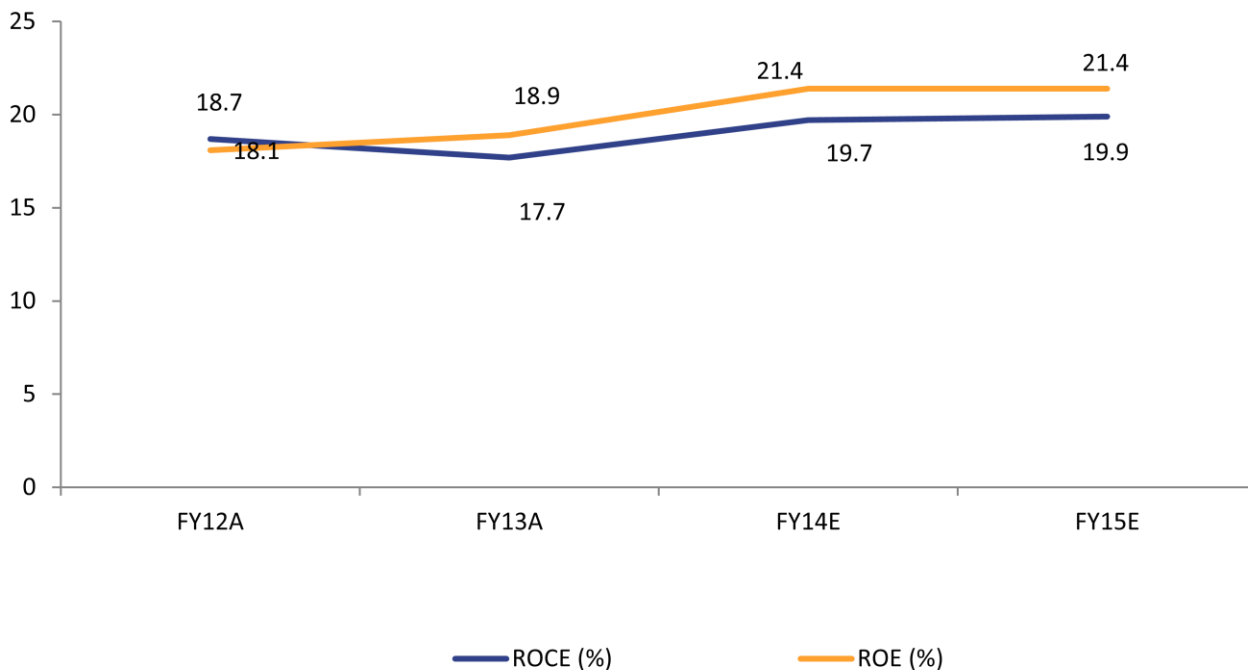
In the face of socio-political risks such as political riots in Kenya and a freeze on FMCG price hikes in Argentina, the company's management is confident of ~15% growth in its international business. It expects the Megasari Makmur group and Darling Group Holdings to grow at 15% per annum with operating margin of around 18%, while Latin America and Europe are expected to operate at 77 to 8% margins.

The company is expecting its international business to grow at a CAGR of ~34% over FY'13-15 led by African business CAGR of 60% on the back of consolidation of remaining 49% of Darling business over two phases.

### Improved sales system to help expand presence across urban and rural areas

GCPL's merger with Godrej Household Products Ltd (GHPL) has helped it to facilitate an improved sales system. The company has leveraged GHPL's strong presence to introduce its hair colorants and toiletries in the market. Moreover, it has also introduced its home insecticide range in the tier 2 and tier 3 regions. The rural salience has increased over the year by over 8,000 villages. In FY'13, GCPL has tapped into new channels and developed its sales teams. The company has reached out to more than 46 lakh outlets. On international front too, the company has explored opportunities to enhance its marketing capabilities. Integration of its two businesses in Argentina, namely, Argencos and Issue, has strengthened its sales and distribution networks. In Africa also, GCPL has leveraged Rapidol's strong presence in the continent to introduce the Renew range and is looking at this channel to further expand the portfolio presence.

### Key ratios



**Balance Sheet (Consolidated)**

Y/E (₹mn)	FY12A	FY13A	FY14E	FY15E
Share Capital	340	340	340	340
Reserve and surplus	27,812	32,790	39,348	47,218
<b>Net Worth</b>	<b>28,152</b>	<b>33,130</b>	<b>39,688</b>	<b>47,558</b>
Minority Interest	882	2,095	2,095	2,095
Total debt	15,712	19,537	23,347	27,912
Deferred tax liability	111	60	60	60
Long Term Provisions	223	221	221	221
Current Liabilities	15,204	21,967	28,381	36,002
<b>Capital Employed</b>	<b>60,283</b>	<b>77,010</b>	<b>93,792</b>	<b>113,848</b>
Fixed Assets	15,840	17,285	19,013	20,914
Goodwill	2,145	29,085	36,356	43,627
Non-current Assets	22,030	2,157	1,962	1,787
Current Assets	20,269	28,484	36,461	47,520
<b>Capital Deployed</b>	<b>60,283</b>	<b>77,010</b>	<b>93,792</b>	<b>113,848</b>

**Key Ratios (Consolidated)**

Y/E	FY12A	FY13A	FY14E	FY15E
EBITDA Margin (%)	17.6	15.9	16.5	16.5
EBIT Margin (%)	17.3	15.2	16.4	16.3
NPM (%)	14.8	12.3	11.2	11.1
ROCE (%)	18.7	17.7	19.7	19.9
ROE (%)	18.1	18.9	21.4	21.4
Adj EPS (₹)	16.2	19.6	26.3	31.3
P/E (x)	51.0	42.1	31.4	26.4
BVPS (₹)	89.2	103.5	122.8	145.9
P/BVPS (x)	9.25	7.97	6.72	5.66
EV/Operating Income (x)	32.0	27.8	21.2	17.5
EV/EBITDA (x)	33.9	28.7	22.5	18.6
EV/EBIT (x)	34.4	30.0	22.7	18.8

**Profit & Loss Account (Consolidated)**

Y/E (₹mn)	FY12A	FY13A	FY14E	FY15E
<b>Net Sales</b>	<b>48,662</b>	<b>64,074</b>	<b>78,735</b>	<b>94,875</b>
Growth (%)	31.7	31.3	23.2	20.5
Expenses	40,108	53,923	65,735	79,216
<b>EBITDA</b>	<b>8,554</b>	<b>10,152</b>	<b>13,000</b>	<b>15,659</b>
<i>EBITDA margin (%)</i>	<i>17.6</i>	<i>15.9</i>	<i>16.5</i>	<i>16.5</i>
Other Income	520	678	800	960
Foreign exchange loss	-	(328)	-	-
Depreciation	644	770	924	1,109
<b>EBIT</b>	<b>8,430</b>	<b>9,732</b>	<b>12,876</b>	<b>15,510</b>
Interest	658	775	929	1,115
<b>Profit Before Tax</b>	<b>7,771</b>	<b>8,957</b>	<b>11,946</b>	<b>14,395</b>
Exceptional items	2,002	1,289	-	-
Tax	2,261	1,792	2,509	3,261
Minority interest	245	493	493	493
<b>Net Profit</b>	<b>7,267</b>	<b>7,961</b>	<b>8,944</b>	<b>10,641</b>
<i>NPM (%)</i>	<i>14.8</i>	<i>12.3</i>	<i>11.2</i>	<i>11.1</i>

**Valuation and view**

Being a market leader in hair colour, home insecticides and liquid detergent and the number two player in toilet soaps in the Indian market, GCPL will continue to leverage innovation as a differentiator. The company has launched a number of products in FY'13 and has a strong innovation pipeline in place to introduce exciting and disruptive new products. Traction in Asian, African and Latin American business will further enhance the profitability.

At a current market price (CMP) of ₹825.3, the stock trades at 31.4x FY14E and of 26.4x FY15E, PE. We recommend 'BUY' with a target price of ₹949, arrived at 31.3x FY15E EPS which implies potential upside of 15.8% to the CMP from long term (1 year) perspective.



Indbank Merchant Banking Services Ltd.  
I Floor, Khiviraj Complex I,  
No.480, Anna Salai, Nandanam, Chennai 600035  
Telephone No: 044 – 24313094 - 97  
Fax No: 044 – 24313093  
[www.indbankonline.com](http://www.indbankonline.com)

#### Disclaimer

@ All Rights Reserved

This report and Information contained in this report is solely for information purpose and may not be used as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. The investment as mentioned and opinions expressed in this report may not be suitable for all investors. In rendering this information, we assumed and relied upon, without independent verification, the accuracy and completeness of all information that was publicly available to us. The information has been obtained from the sources that we believe to be reliable as to the accuracy or completeness. While every effort is made to ensure the accuracy and completeness of information contained, Indbank Limited and its affiliates take no guarantee and assume no liability for any errors or omissions of the information. This information is given in good faith and we make no representations or warranties, express or implied as to the accuracy or completeness of the information. No one can use the information as the basis for any claim, demand or cause of action.

Indbank and its affiliates shall not be liable for any direct or indirect losses or damage of any kind arising from the use thereof. Opinion expressed is our current opinion as of the date appearing in this report only and are subject to change without any notice.

Recipients of this report must make their own investment decisions, based on their own investment objectives, financial positions and needs of the specific recipient. The recipient should independently evaluate the investment risks and should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document and should consult their advisors to determine the merits and risks of such investment.

The report and information contained herein is strictly confidential and meant solely for the selected recipient and is not meant for public distribution. This document should not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced, duplicated or sold in any form.