

**Godrej Consumer Products Ltd** BUY | CMP Rs. 120.0 Q1 FY09 Result Update

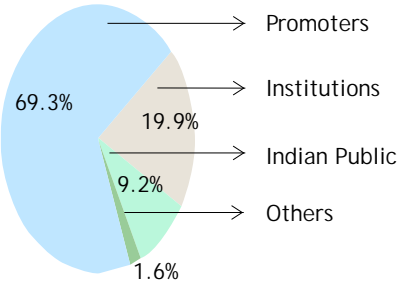
**Stock Data**

Bloomberg : GCPL.IN  
 Reuters : GOCP.BO  
 BSE Code : 532424  
 NSE Code : GODREJCP  
 BSE Group : B

**Stock Codes**

Benchmark : BSESMLCAP  
 52 W High : 160.1  
 52 W Low : 95.0  
 Market Cap : Rs. 27,123 Mn  
 Face Value : Rs. 1.0

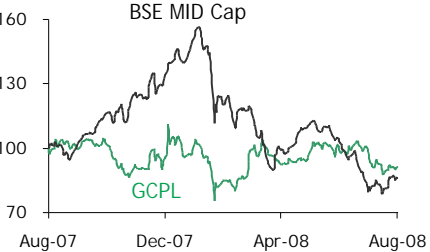
**Shareholding Pattern (as on June 08)**



**Stock Returns**

|        | 1 Mth | 3 Mths | 6 Mths |
|--------|-------|--------|--------|
| GCPL   | -6.32 | -7.83  | 7.70   |
| BSESML | 6.24  | -21.43 | -31.37 |

**Price Comparison**



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**Performance Highlights:**

Impressive Topline and subdued Bottomline growth: Revenues have grown at ~17% (Y-Y) on a standalone basis and 26% (Y-Y) on a consolidated basis. The current quarter sales figure stands at 361.63 crores on a consolidated basis. That indicates a 33.05% increase on a Q-Q basis.

The bottomline growth was under pressure during the current quarter. On a yearly basis, PAT grew at 1.19% on a consolidated basis and declined by ~ 4 % on standalone basis. On the quarterly basis as well the bottomline performance has been equally dismal. PAT declined 4.21 % on a consolidated basis and 7.73% on the standalone basis. The EPS is 1.5 for the current quarter .

Pressure on Margins: The margins have been under pressure on both standalone and consolidated basis. On the consolidated basis:

- EBITDA margins at 14.67% lower by 617 bps Q-Q.
- NPM at 10.81% v/s 15.02% in Q4FY08.
- RM costs increase by ~13%.
- Staff Costs increase by 21.35%.

Higher vegetable oil prices resulted in lower than expected EBITDA growth. Advertisement cost increased by 63% to Rs. 34.3 crore compared to Rs. 21.1 crore on the back of an extensive relaunch of flagship brand, Cinthol. We however expect the raw material prices to subside on account of correcting crude oil prices and palm oil prices. The company is also planning another price hike in soaps in the Q2FY09 which should result in better margins next quarter.

Dividends: Godrej Consumer Products Ltd has declared an interim dividend @ Rs 0.75/- per share (75% on the shares of the face value of Re 1/- each for the financial year 2008-09). This would result in total outflow of Rs 22.65 crore including dividend distribution tax

Ad spends: Advertisement & promotions spend has increased to 9.49% of turnover in the current quarter from 7.36% of turnover last year (on account of relaunch of Cinthol brand). The ad spends are however in line with topline growths and the re-launched Cinthol brand has been well received by the consumer. Hrithik Roshan is the new brand ambassador for Cinthol Brand.

Segmental Performance  
(Consolidated)

| Particluars (Rs. Mn) | Jun-08 | Mar-08 | Q-Q(%)  | Jun-07 | Y-Y(%)  |
|----------------------|--------|--------|---------|--------|---------|
| Soaps                | 1853   | 1260.4 | 47.02%  | 1628.1 | 13.81%  |
| Hair Colours         | 733.4  | 697.3  | 5.18%   | 637.5  | 15.04%  |
| Toiletries           | 908.5  | 623.9  | 45.62%  | 547.1  | 66.06%  |
| Liquid Detergents    | 15.6   | 66.8   | -76.65% | 11.1   | 40.54%  |
| By - Products        | 105.8  | 69.7   | 51.79%  | 39.1   | 170.59% |
| Total                | 3616.3 | 2718.1 |         | 2862.9 |         |

**Soaps:** Soaps segment grew by 13% in the current quarter while the industry grew at 9%. The company has maintained its market share of 9.1% for Q1FY2008-09 and position of being the 2nd largest player in the industry. Though we are confident about GCPL's position in the Soaps market, the competition has increased with ITC entering the market (and immediately capturing 1.4 % market share) and HUL getting aggressive in this segment. The segment is also under margin pressure on account of higher vegetable oil prices and much higher advertising. The company is therefore planning another price hike in soaps in the Q2FY09 in the range of 5-7% , which should aid margin improvement.

**Hair Colour:** This segment grew by 15% in the current quarter on the back of improved performance from Godrej Expert Powder Hair Dye, Godrej Kesh Kala and Renew . No price hikes are expected and the business is volume driven. GCPL's market share in Hair Colour stood at 34.2% for the quarter. Rapidols growth was muted in this quarter, registering a decline in topline by 2.5% YOY (affected due to depreciation of rand to rupee). Katrina Kaif is the new brand ambassador for Godrej Renew.

**Toiletries:** This segment grew by an impressive 66% in the current quarter. All offerings including the Cinthol range of talc and deo sprays and Godrej Deluxe shaving cream continue to deliver strong growth. This segment should continue to perform well on account of re-launch of the Cinthol range.

**Others:** Liquid Detergents maintain a market share of 75.6 % for Q1 FY09. Godrej SCA Hygiene's recently introduced "Libero" baby diapers continue to receive an encouraging response. This was Kinky Group's first quarter of performance of the Company as a subsidiary of GCPL. For the quarter under review the Company's sales amounted to ZAR 20.39. Kinky sells a variety of products which include hair braids, hair pieces, wigs and wefted pieces along with hair accessories like styling gels, hair sprays and oil free shampoo.

## About the Company

Godrej Consumer Products Ltd. (GCPL) is a major player in the Indian FMCG market with leadership in personal, hair, household and fabric care segments. The company operates in two segments namely soaps and personal care. They are among the largest marketer of toilet soaps in the country with leading brands such as Cinthol , Evita, Crowning Glory, Vigil, Shikakai, Fairglow , Godrej No. 1. They are the leader in the hair colour category in India and have a vast product range from Godrej Renew Coloursoft Liquid Hair Colours, Godrej Liquid & Powder Hair Dyes to Godrej Kesh Kala oil, Nupur based Hair Dyes. Their personal care segment also includes shaving cream and gel, talcum powder and deodorant. Their Liquid Detergent brand EZEE is the market leader in its category. They are also the preferred supplier for contract manufacturing of toilet soaps for some of the most well-known brands in the country.

## Our View

GCPL is a play on the expected consumption boom in India. The rising proportion of middle-income families will translate into a strong demand for products like soaps, hair colour and toiletries. GCPL has targeted the mass market with value for money products in high growth low penetration segments like Hair Colour and Toiletries. With its dominant position, GCPL is one of the best plays on the consumption boom in India. At Rs. 120, the stock is trading at 17x Fy08 earnings. This compared to its peers seems underpriced and a buy. However, investors will have to watch out for slowing growth rates or setbacks in market share, as these will be the key triggers to exit the stock.

## GCPL : Quarterly Financials

| Earnings Statement |         |         |           |         |          |         |         |          |
|--------------------|---------|---------|-----------|---------|----------|---------|---------|----------|
| YE March (Rs. Mn.) | Q109    | Q408    | Q-Q(%)    | Q108    | Y-Y(%)   | 9M08    | 9M07    | Y-Y(%)   |
| Net Revenues       | 3,616.3 | 2,718.1 | 33.05%    | 2,862.9 | 26.32%   | 8,330.6 | 7,074.8 | 17.75%   |
| Cost of Materials  | 1,391.2 | 1,231.9 | 12.93%    | 1,282.2 | 8.50%    | 3,561.1 | 3,355.5 | 6.13%    |
| Gross Profit       | 2,225.1 | 1,486.2 | 49.72%    | 1,580.7 | 40.77%   | 4,769.5 | 3,719.3 | 28.24%   |
| Staff Costs        | 222.2   | 183.1   | 21.35%    | 207.3   | 7.19%    | 542.0   | 416.1   | 30.26%   |
| Other Expenses     | 1,507.1 | 736.2   | 104.71%   | 862.0   | 74.84%   | 2,646.4 | 1,970.3 | 34.31%   |
| Total Expenditure  | 1,729.3 | 919.3   | 88.11%    | 1,069.3 | 61.72%   | 3,188.4 | 2,386.4 | 33.61%   |
| Operating Profit   | 495.8   | 566.9   | -12.54%   | 511.4   | -3.05%   | 1,581.1 | 1,332.9 | 18.62%   |
| OPM (%)            | 13.71%  | 20.86%  | -34.26%   | 17.86%  | -23.25%  | 18.98%  | 18.84%  | 0.74%    |
| Other Income       | 34.6    | (0.5)   | -7020.00% | 12.6    | 174.60%  | 40.8    | 53.5    | -23.74%  |
| EBITDA             | 530.4   | 566.4   | -6.36%    | 524.0   | 1.22%    | 1,621.9 | 1,386.4 | 16.99%   |
| Depreciation       | 55.0    | 43.4    | 26.73%    | 44.2    | 24.43%   | 138.3   | 97.1    | 42.43%   |
| EBIT               | 475.4   | 523.0   | -9.10%    | 479.8   | -0.92%   | 1,483.6 | 1,289.3 | 15.07%   |
| Interest           | (11.5)  | 33.6    | -134.23%  | 34.9    | -132.95% | 95.1    | 76.3    | 24.64%   |
| PBT                | 486.9   | 489.4   | -0.51%    | 444.9   | 9.44%    | 1,388.5 | 1,213.0 | 14.47%   |
| Tax                | 95.9    | 81.2    | 18.10%    | 58.5    | 63.93%   | 201.3   | 166.1   | 21.19%   |
| PAT                | 391.0   | 408.2   | -4.21%    | 386.4   | 1.19%    | 1,187.2 | 1,046.9 | 13.40%   |
| Equity Capital     | 258.1   | 225.8   | 14.30%    | 225.8   | 14.30%   |         |         |          |
| EPS                | 1.5     | 1.8     | -16.20%   | 1.7     | -11.47%  |         |         |          |
| Ratio Analysis     |         |         |           |         |          |         |         |          |
| Profitability      |         |         |           |         |          |         |         |          |
| YE March (Rs. Mn.) | Q109    | Q408    | Q-Q(bps)  | Q108    | Y-Y(bps) | 9M08    | 9M07    | Y-Y(bps) |
| OPM (%)            | 13.71%  | 20.86%  | (714.63)  | 17.86%  | (415.29) | 18.98%  | 18.84%  | 13.93    |
| EBITDA (%)         | 14.67%  | 20.84%  | (617.12)  | 18.30%  | (363.62) | 19.47%  | 19.60%  | (12.71)  |
| EBIT (%)           | 13.15%  | 19.24%  | (609.53)  | 16.76%  | (361.32) | 17.81%  | 18.22%  | (41.48)  |
| PAT (%)            | 10.81%  | 15.02%  | (420.57)  | 13.50%  | (268.46) | 14.25%  | 14.80%  | (54.65)  |

## GCPL : Financials

| Earnings Statement       |         |         |          |          | Balance Sheet             |           |         |           |           |
|--------------------------|---------|---------|----------|----------|---------------------------|-----------|---------|-----------|-----------|
| Particulars              | FY05    | FY06    | FY07     | FY08     | Particulars               | FY05      | FY06    | FY07      | FY08      |
| Total Revenues           | 5,626.7 | 6,997.2 | 9,532.3  | 11,025.7 | Equity Capital            | 226.4     | 225.8   | 225.8     | 225.8     |
| - Growth (%)             | 14.4%   | 24.4%   | 36.2%    | 15.7%    | Reserves                  | 272.1     | 561.0   | 994.1     | 1,489.8   |
| Total Expenditure        | 4,622.1 | 5,570.0 | 7,735.4  | 8,880.7  | Shareholders Funds        | 498.6     | 786.8   | 1,220.0   | 1,715.6   |
| Operating Profit         | 1,004.6 | 1,427.2 | 1,796.9  | 2,145.0  | Borrowed Funds            | 61.3      | 687.2   | 1,736.1   | 1,871.0   |
| Other Income             | 64.1    | 73.1    | 26.5     | 40.3     | Deferred Tax Liability    | 79.4      | 65.7    | 79.8      | 89.1      |
| EBITDA                   | 1,068.7 | 1,500.3 | 1,823.4  | 2,185.3  | Total Liabilities         | 639.3     | 1,539.7 | 3,035.9   | 3,675.7   |
| Depreciation             | 106.6   | 114.7   | 142.1    | 181.7    | Fixed Assets              | 1,014.1   | 849.6   | 1,992.1   | 2,399.1   |
| EBIT                     | 962.2   | 1,385.6 | 1,681.3  | 2,003.6  | Goodwill                  | 0.0       | 851.4   | 885.7     | 956.0     |
| Interest                 | 24.6    | 64.7    | 96.3     | 128.7    | Investments               | 0.0       | 10.1    | 0.1       | 0.1       |
| PBT                      | 937.6   | 1,320.8 | 1,585.0  | 1,874.9  | Current Assets            |           |         |           |           |
| Tax                      | 41.6    | 107.8   | 195.4    | 282.5    | Inventory                 | 738.1     | 1,004.7 | 1,352.3   | 1,915.6   |
| PAT Before EI            | 895.9   | 1,213.0 | 1,389.7  | 1,592.4  | Sundry Debtors            | 51.8      | 303.3   | 483.2     | 509.6     |
| - Growth (%)             | 38.2%   | 35.4%   | 14.6%    | 14.6%    | Loans & Advances          | 151.6     | 142.8   | 464.8     | 667.7     |
| Extra-ordinary Items     | 0.0     | 0.0     | 50.6     | 0.0      | Cash & Bank Balance       | 89.7      | 263.4   | 474.9     | 425.9     |
| Reported PAT             | 895.9   | 1,213.0 | 1,440.3  | 1,592.4  | Current Liabilities       |           |         |           |           |
|                          |         |         |          |          | Sundry Creditors          | 1,329.8   | 1,787.3 | 2,520.0   | 2,904.5   |
|                          |         |         |          |          | Provisions                | 76.1      | 98.1    | 97.3      | 322.4     |
|                          |         |         |          |          | Net Current Assets        | (374.8)   | (171.3) | 158.1     | 291.8     |
|                          |         |         |          |          | Misc. Expenditure         | 0.0       | 0.0     | 0.0       | 28.7      |
|                          |         |         |          |          | Total Assets              | 639.3     | 1,539.7 | 3,035.9   | 3,675.7   |
| Ratio Analysis           |         |         |          |          | Cash Flow                 |           |         |           |           |
| Particulars              | FY05    | FY06    | FY07     | FY08     | Particulars               | FY05      | FY06    | FY07      | FY08      |
| OPM (%)                  | 17.9%   | 20.4%   | 18.9%    | 19.5%    | Opening Cash & Bank       | 139.6     | 89.7    | 263.4     | 474.9     |
| EBITDA (%)               | 19.0%   | 21.4%   | 19.1%    | 19.8%    | Profit After Tax          | 895.9     | 1,213.0 | 1,389.7   | 1,592.4   |
| PBIT (%)                 | 17.1%   | 19.8%   | 17.6%    | 18.2%    | Invnt Income              | (64.1)    | (73.1)  | (26.5)    | (40.3)    |
| PAT (%)                  | 15.9%   | 17.3%   | 14.6%    | 14.4%    | Interest Paid             | 24.6      | 64.7    | 96.3      | 128.7     |
| Interest Cover (x)       | 39.1    | 21.4    | 17.5     | 15.6     | Misc. Exp W/Off           | 0.0       | 0.0     | 0.0       | (28.7)    |
| EPS (Rs.)                | 15.8    | 21.5    | 6.2      | 7.1      | Depreciation              | 106.6     | 114.7   | 142.1     | 181.7     |
| P/E (x)                  | 7.6     | 5.6     | 19.5     | 17.0     | Deferred Taxation         | 3.4       | (13.8)  | 13.1      | 9.2       |
| P/BV (x)                 | 13.6    | 8.6     | 22.2     | 16.1     | Others                    | (7.1)     | 110.2   | (10.1)    | (67.4)    |
| BVPS (Rs.)               | 8.8     | 13.9    | 5.4      | 7.5      | Change in Working Cap     | 26.7      | (29.8)  | (117.8)   | (182.8)   |
| Mkt Cap (Rs. Mn.)        | 6,798.2 | 6,781.0 | 27,123.9 | 27,123.9 | CF - Operating Activities | 985.9     | 1,386.0 | 1,486.7   | 1,592.8   |
| M Cap/Sales (x)          | 1.2     | 1.0     | 2.8      | 2.5      | Change in Fixed Assets    | (75.6)    | (36.0)  | (1,255.9) | (555.4)   |
| EV (Rs. Mn.)             | 6,769.9 | 7,194.7 | 28,384.9 | 28,568.9 | Change in Goodwill        | 0.0       | (851.4) | (34.3)    | (34.3)    |
| EV/EBITDA (x)            | 6.3     | 4.8     | 15.6     | 13.1     | Change in Investments     | 0.0       | (10.1)  | 10.0      | 0.0       |
| EV/Sales (x)             | 1.2     | 1.0     | 3.0      | 2.6      | Investment Income         | 64.1      | 73.1    | 26.5      | 40.3      |
| ROCE (%)                 | 171.8%  | 94.0%   | 56.9%    | 56.3%    | CF - Investing Activities | (11.5)    | (824.4) | (1,253.7) | (549.4)   |
| RONW (%)                 | 179.7%  | 154.2%  | 113.9%   | 94.4%    | Increase in Equity        | (48.4)    | (47.7)  | 0.0       | 0.0       |
| Debt/Equity Ratio (x)    | 0.1     | 0.9     | 1.4      | 1.1      | Changes in Borrowings     | (180.8)   | 625.9   | 1,048.9   | 134.9     |
| Inventory T/o Days       | 47.9    | 52.4    | 51.8     | 63.4     | Interest Paid             | (24.6)    | (64.7)  | (96.3)    | (128.7)   |
| Debtors T/o Days         | 3.4     | 15.8    | 18.5     | 16.9     | Dividend Paid             | (770.5)   | (901.3) | (974.1)   | (1,098.8) |
| Advances T/o Days        | 9.8     | 7.4     | 17.8     | 22.1     | CF - Financing Activities | (1,024.4) | (387.9) | (21.5)    | (1,092.6) |
| Creditors T/o Days       | 86.3    | 93.2    | 96.5     | 96.2     | Net Change in Cash        | (49.9)    | 173.8   | 211.5     | (49.1)    |
| Working Cap T/o Days     | (24.3)  | (8.9)   | 6.1      | 9.7      | Closing Cash & Bank Bal   | 89.7      | 263.4   | 474.9     | 425.9     |
| Fixed Assets T/o (Gross) | 3.1     | 4.0     | 3.5      | 3.8      |                           |           |         |           |           |
| DPS (Rs.)                | 12.0    | 14.0    | 3.8      | 4.2      |                           |           |         |           |           |
| Dividend Payout (%)      | 75.8%   | 65.2%   | 60.9%    | 60.0%    |                           |           |         |           |           |
| Dividend Yield (%)       | 10.0%   | 11.7%   | 3.1%     | 3.5%     |                           |           |         |           |           |

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