

Godrej Consumer Products: Execution to the fore....

Below numbers than street expectations with margin contraction....

Godrej Consumer Products Ltd (Godrej CP), a major player in FMCG market has reported below numbers than street's expectations. Company's consolidated sales grew by 26% led by 20% growth from Indian Business and 34% of International Business. Domestic and International business contributes 55% and 45% of sales, respectively. Company's PAT was up by 3.1% on YoY basis.

International business – delivering on most fronts: With a series of acquisitions over the last 3years, Godrej CP enjoys dominant positions in its key overseas markets and categories - Indonesia (HHI and hair care) and Africa (hair extensions) Company's Indonesia arm "Megasari" registered sales growth of 27 %(YoY), Megasari contributes 27% of International Business. Africa Business posted a healthy growth of 21% and Latin America was almost double than same quarter of last year.

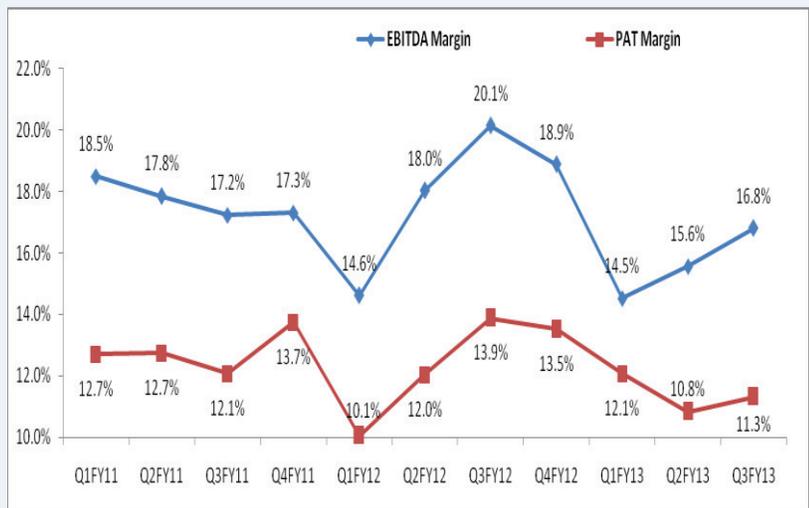
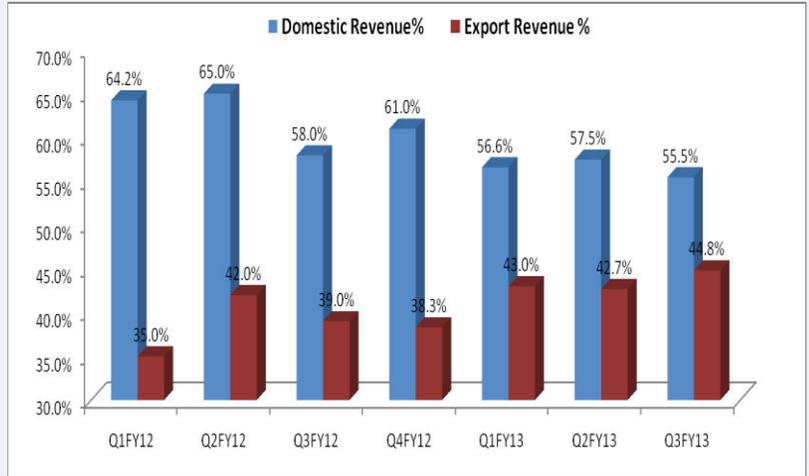
On Category wise: During the Quarter, Company's Home Care (contributes 44% of sales) reported robust growth of 26% (YoY), category also benefited by high incidence of dengue and malaria. Hair Care (contributes 27% of sales) was up by 36 %(YoY), strongly supported by all the formats of Hair Color and Personal Wash (Contributes 18% of Sales) posted 13% (YoY) growth.

Inflationary pressure and high wage cost impacted Company's margin. Company's Raw Material cost increased by 34%, Ad spends and Employee costs were up 62% and 42% respectively on YoY basis. EBITDA margin decline by 330bps (YoY) to 16.8%. While, sequentially improved by 120bps.

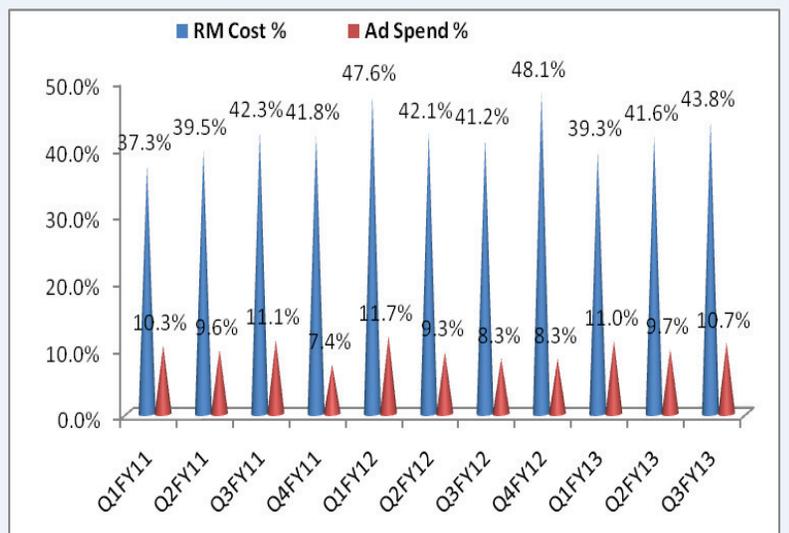
During the Quarter, Company recently relaunched Cinthol and according to the management initial trade response has been encouraging and Godrej No.1 is gaining shares and is benefiting from the premiumization trend in the category – positioning has evolved from a value-for-money soap to beauty soap. Company also introduces 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. Management expects to correct its underperformance in this category, going forward.

Over last two quarters, they have had several major launches, which were backed with strong marketing investments. The launch response has been very encouraging. Godrej is optimistic of continuing strong sales growth going ahead and expects the company's profits to also improve on the back of stronger traction from its launches and favorable input costs.

Company's strong 20%+ growth in the domestic household insecticides business is the key growth driver. We expect strong momentum to continue in company's international business led by Megasari and consolidation of Darling business. Despite some concerns related to higher leverage, lost domestic focus and currency risk, we remain confident of achieving the 20%+ top line growth with strong PAT growth for FY13E & beyond. It plans to grow its revenue by 10 times in the next 10 years through acquisitions, both in India and overseas. At a CMP of Rs708, stock trades at 23.6x FY14E earnings. We retain BUY with a price target of Rs 725.



(Source: Company/Eastwind)



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