RESULT UPDATION

Godrej Consumer Products Ltd

Godrej Consumer's Q2FY13 consolidated numbers were inline than street expectations; Company reported 35% rise in sales ***(Figure: 1.1)*** led by strong growth across the segments. Home care (contributes 45% of sales) grew by 21%, Personal wash (contributes 22% of sales) grew by 23% and Hair Care (contributes 23% of sales) grew by 72% on YoY basis. Overall, domestic sales grew 19%, driven by strong growth across the categories, while international sales grew 32% with strong growth across the geographies. The Megasari brand (an Indonesian entity) registered a sales growth of 37% YoY because of ongoing market investment, new product launches and distribution expansion.

Company's EBITDA margin ***(Figure: 1.2)*** declined by 240bps to 15.6 %(YoY) due to high burden of employee cost and Raw material cost, Net profit margin decreased by 110bps to 10.8%(YoY). PAT was up by 24.7% (YoY).

Company has maintained its raw material cost to sales at 42% and ad spend at 10%, almost flat than Q2FY12. Softening of palm oil prices (down 14% in last 6 months in INR terms) is a positive for GCPL's gross margins as palm oil is 20% of GCPL's raw material cost.

During the quarter, Company's household insecticide brand HIT emerged as a largest brand in term of market share. Company extended the Cinthol brand into bath and fragrances spaces, and launched AER air fresheners during the quarter. Company has entered the crèmes hair colour segment (company already market leader in powder and mehendi segment). The product will be available in two forms—sachet (no competitor in this format) and hair colouring kit. Its Africa business comprises Rapidol, Kinky, Tura and Darling group.

During the quarter, GCPL announced 60% stake acquisition in Chile's Cosmetica Nacional (annual turnover of $36mn). Further, GCPL announced strategic share to sale to Temasek's subsidiary Baytree, which will acquire 4.9% stake in the company for Rs 685 cr. This will partly fund the Chilean acquisition and pay off its debt. Recently company has completed the acquisition of 51% stake in Darling Group in Kenya after the acquisition of 65% stake in Darling Group in Africa and 51% stake in Darling group in Mozambique.

Company's strong 20%+ growth in the domestic household insecticides business is the key growth driver. We expect strong momentum to continue in GCPL's international business led by Megasari (50% of international sales) 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 Rs682, stock trades at 23.5x FY14E earnings. We retain BUY with a price target of Rs 725.

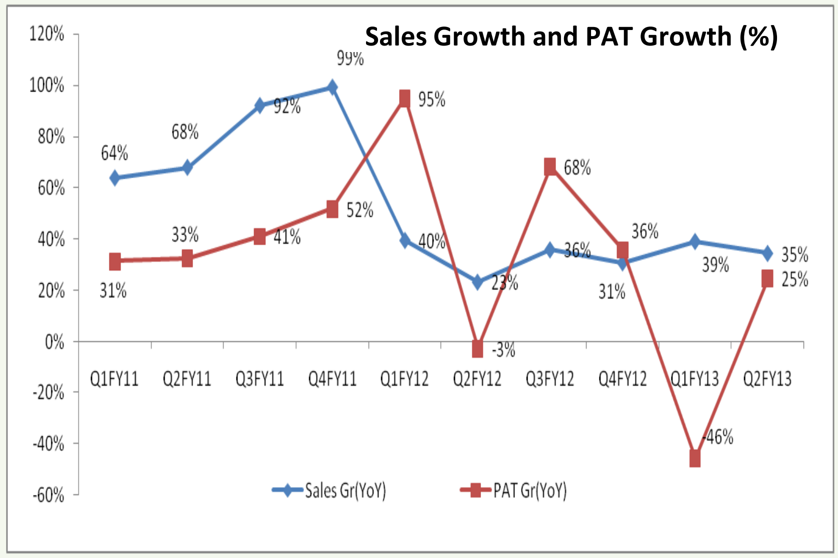


Figure: 1.1

(Source: Eastwind)

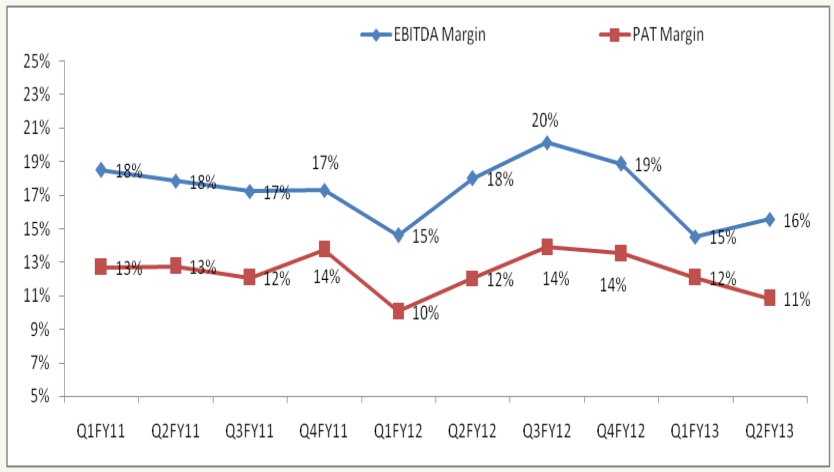
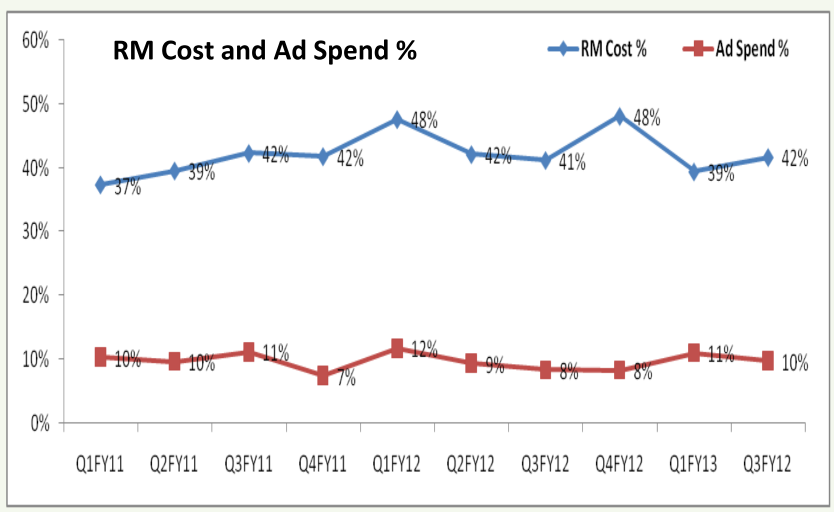


Figure: 1.2

(Source: Eastwind)



(Source: Eastwind)

Figure: 1.3