

# Godrej Consumer Product

*"Margin Red and Strategy Shining"*

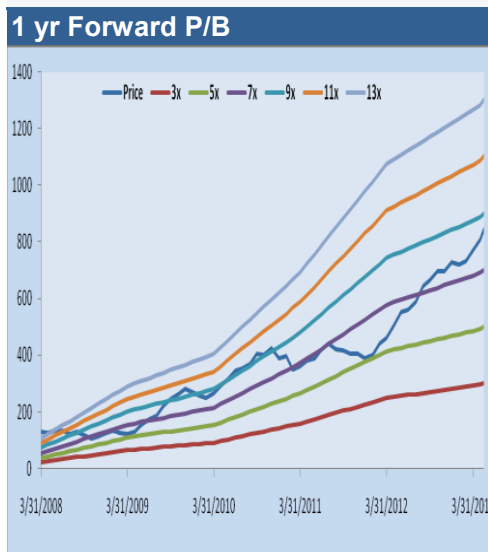
**"BUY"**  
17th May' 13

Result update	BUY
CMP	880
Target Price	960
Previous Target Price	725
Upside	9%
Change from Previous	32%

Market Data	
BSE Code	532424
NSE Symbol	GODREJCP
52wk Range H/L	936/465
Mkt Capital (Rs Cr)	29958
Average Daily Volume	120012
Nifty	6170

Stock Performance			
	1M	1yr	YTD
Absolute	13.4	70.0	29.6
Rel. to Nifty	4.9	45.0	15.5

Share Holding Pattern-%			
	Current	4QFY13	3QFY1
Promoters	63.5	63.5	63.8
FII	28.2	27.6	27.4
DII	1.2	1.4	1.2
Others	7.1	7.5	7.6



*Inline numbers with guidance of products expansion and margin stability;*

Godrej CP 's consolidated sales grew by 29.7% led by 17% growth from Indian Business and 49% of International Business. Domestic and International business contributes 55% and 45% of sales, respectively. Company's PAT was up by 73.4% on YoY basis.

GODREJ CP has launched 5 new products in domestic market in FY13. It will explore organic & inorganic growth. Along with its 3x3 strategy, it has 10x10 strategy also, which refers to 10x growth in 10 years.

**On Category wise:** During the Quarter, Company's Home Care (contributes 48% of sales) reported robust growth of 27% (YoY), category also benefited by high incidence of dengue and malaria. Personal wash (contributes 30% of sales) was up by 95%(YoY), and Hair Care (Contributes 11% of Sales) down by 5% (YoY).

**International Business:** For FY13, India grew by 17% and contributed 55% of total revenue, Indonesia grew by 35% and contributed 20% of total revenue, Africa grew by 68% and contributed 11% of total revenue, Latin America grew by 84% and contributed 8% of total revenue & Europe grew by 41% and contributed 5% of total revenue.

**Weak Margin:** Because of cost structure due to acquisition, margin in Q4 was down. High fixed cost of some of the acquisition and external environment impacted its margin. Overall, EBITDA margin down by 260bps (YoY) to 16.2%. In Indonesia margin were down by 170 bps while in Africa it was down by 1230 bps. In Lat-America it was down by 430 bps. In Indonesia, the company gave wage hike, which impacted the margin in Q4 by 200 bps. In Kenya, business remained shut for weeks as election impacted the margin by 500 bps, while liquidation of hair color stocks of Kinky impacted the margin by 200 bps.

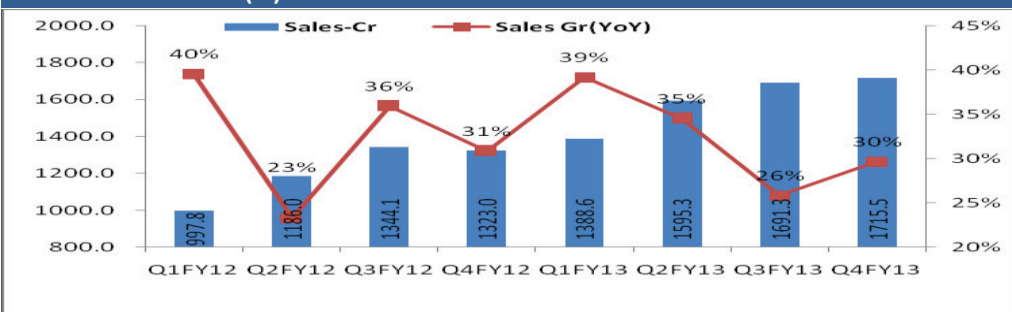
**View and Valuations:** Company's strong 20%+ growth in the domestic household insecticides business is the key growth driver. We expect strong momentum to continue in company's international business led by Megasari and consolidation of Darling business. Despite some concerns related to higher leverage, lost domestic focus and currency risk, we remain confident of achieving the 20%+ top line growth with strong PAT growth for FY14E & beyond. At a CMP of Rs880, stock trades at 6.4x FY14E P/BV. We retain BUY with a price target of Rs 960.

Financials				Rs, Cr	
	1QCY13	4QCY13	(QoQ)-%	1QCY12	(YoY)-%
Revenue	1715.5	1691.3	1.4%	1323	29.7%
EBITDA	279.1	284.9	-2.0%	250	11.6%
PAT	229	172	33.1%	193	18.7%
EBITDA Margin	16.3%	16.8%	(50bps)	18.9%	(260bps)
PAT Margin	13.3%	10.2%	310bps	14.6%	(130bps)

(Source: Company/Eastwind)

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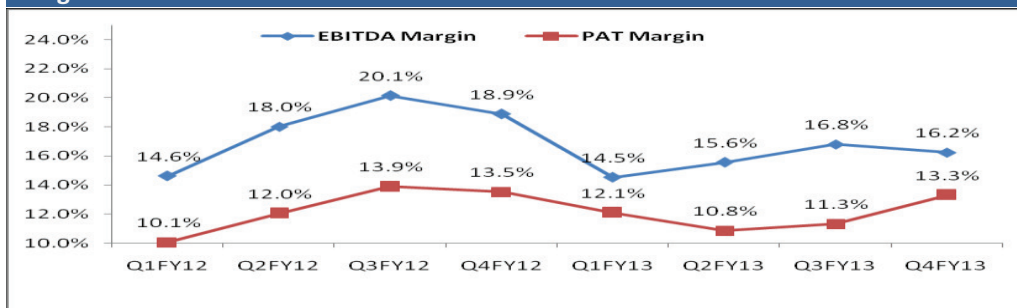
## Sales and its Growth(%)



(Source: Company/Eastwind)

The company continued to register strong performance in Indian and Indonesian geographies, while weak performance in Africa contributed significantly to the company underperforming

## Margin-%



(Source: Company/Eastwind)

It expects expansion in gross margin, which will help it to fund new product launches.

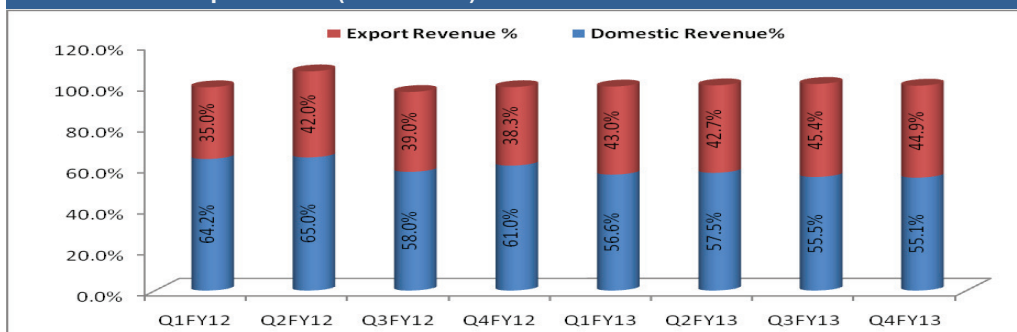
## Sales Mix - Categorywise-(% of Sales)

Categories	Q1FY12	Q2FY12	Q3FY12	Q4FY12	Q1FY13	Q2FY13	Q3FY13	Q4FY13
Home Care	44%	50%	44%	49%	39%	45%	44%	48%
Personal Wash	25%	24%	20%	20%	26%	22%	18%	30%
Hair Care	18%	18%	25%	15%	24%	23%	27%	11%
Other	12%	9%	11%	16%	11%	10%	11%	6%

(Source: Company/Eastwind)

Week performance in Hair care category

## Domestic and Export sales-(% of Sales)



(Source: Company/Eastwind)

For FY13, India grew by 20% and contributed 56% of total revenue,

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## Takeaways from the analyst meet:

❖ The mgmt said that it's major focus is on acceleration on innovation. It has launched 5 new products in domestic market in FY13. The company will explore organic & inorganic growth. It will enter into adjacent categories

❖ Innovation is likely to remain a dominant theme in FY14 as well and it plans to accelerate the pace within India and double innovation rates over the next 3 years. Further, it expects to channel its gross-margin savings to fund its innovation pipeline in FY14, limiting major margin expansion.

❖ The company is making efforts to strengthen the business model for Darling (shifting from a wholesale to a salon - driven model) , and may look at the wet hair market in Africa towards the end of the year

❖ Godrej CP will continue to stress on 6 key priorities to drive growth in future: Core category leadership, International growth, Innovation and renovation, Future-ready sales system, Best-in-class supply chain and High-performance culture.

## Financials and Valuation

Rs,Cr	FY10	FY11	FY12	FY13	FY14E	FY15E
Sales	2043.7	3721.7	4912.1	6407.4	7817	9067.72
RM Cost	619.59	1458.3	2174.7	2620.3	3283.1	3627.1
Ad Spend	132.8	352.9	449.9	660.6	859.9	1088.1
EBITDA	409.81	681.2	901.3	1015.2	1289.8	1547.0
PBT	419.92	652.9	977.3	1024.5	1172.6	1360.2
PAT	339.59	514.7	751.2	845.3	938.0	1088.1
PAT adj	339.59	482.3	597.4	762.7	859.9	997.4
<b>Growth-%</b>						
Sales	46.3%	82.1%	32.0%	30.4%	22.0%	16.0%
EBITDA	128.1%	66.2%	32.3%	12.6%	27.1%	19.9%
PAT	197.6%	42.0%	23.9%	27.7%	12.7%	16.0%
<b>Margin-%</b>						
EBITDA	20.1%	18.3%	18.3%	15.8%	16.5%	17.1%
PAT	16.6%	13.0%	12.2%	11.9%	11.0%	11.0%
<b>Exp- on Sales-%</b>						
RM Cost	30.3%	39.2%	44.3%	40.9%	42.0%	40.0%
Ad Spend	6.5%	9.5%	9.2%	10.3%	11.0%	12.0%
<b>Valuation-x</b>						
CMP	261	365	559	836	836	836
No of Share, cr	30.8	32.4	34	34.03	34.03	34.03
EPS	11.0	14.9	17.6	22.4	25.3	29.3
BV	954.7	1725.2	2815.2	3313.0	3829.0	4427.4
BVPS	31.0	53.2	82.8	97.4	112.5	130.1
P/E-x	17.5	20.8	24.9	33.1	28.5	27.9
P/BV-x	4.9	4.4	5.7	7.4	6.4	6.3

(Source: Company/Eastwind)