

GODREJ CONSUMER

Margin slip sours robust sales performance

India Equity Research | Consumer Goods

Godrej Consumer's (GCPL) Q1FY14 revenue and core PAT (adjusting for exceptional gain and foreign exchange loss) came in line with our estimate. Key positives were: (i) 128bps gross margin expansion due to softening of raw material costs; (ii) robust sales growth across all three categories in India - 32% YoY in hair colours, 24% YoY in household insecticides (HI) and 13% YoY (led by 7% YoY volume growth) in soaps; and (iii) 19% YoY organic growth in international business. The key negative was 147bps dip in consolidated EBITDA margin led by higher ad spends (up 74% YoY for domestic business and 54% YoY for consolidated) to support new launches. We continue to remain positive on GCPL's aggression in developing categories via new launches and cross pollination of products across geographies. Maintain 'BUY'.

Robust domestic growth; ad costs dent EBITDA margin

GCPL's domestic business surged 19% YoY. In the domestic business, gross margin expansion of 414bps YoY was routed to ad spends (up 472bps YoY) to support key new launches (*HIT Anti Roach GEL*, new variants of *Godrej No. 1* and *Godrej expert rich crème hair colour*), which led to marginal dip in EBITDA margin by 51bps YoY.

International business sales surge, but margins disappoint

International business sales organic growth was 19% YoY but EBITDA margin dipped 240bps YoY. The sales spurt was on account of 17.7% YoY surge in Indonesia (EBITDA margin contracted 260bps YoY primarily due to divestment of Simba business and time lag in price hikes), 48.6% YoY growth in Africa (EBITDA margin contracted 570bps YoY), 20.4% YoY rise in LatAm (EBITDA margin was flattish YoY to 3%) and 57.5% YoY jump in Europe (EBITDA margin contracted 240bps YoY to 9.9%).

Outlook and valuations: Bright; maintain 'BUY'

We like GCPL's aggression in developing categories via new launches and cross pollination of products across geographies. GCPL has delivered well on sales growth but margins need to improve which is likely to happen gradually. We maintain target multiple of 32x FY15 EPS; arriving at TP of INR925. At CMP, the stock is trading at 35.4x FY14E and 29.1x FY15E EPS. We maintain 'BUY/Sector Outperformer' rating.

Financials						(INR mn)		
Year to March	Q1FY14	Q1FY13	% Change	Q4FY13	% Change	FY13	FY14E	FY15E
Net rev.	17,249	13,921	23.9	17,194	0.3	64,074	78,733	93,971
EBITDA	2,254	2,023	11.4	2,791	(19.2)	9,824	12,204	14,941
Net Profit	1,305	1,305	0.0	2,052	(36.4)	7,961	8,079	9,834
Dil. EPS (INR)	4.2	4.5	(5.7)	6.1	(30.9)	19.6	23.7	28.9
Diluted P/E (x)						42.9	35.4	29.1
EV/EBITDA (x)						30.8	25.0	20.2
ROAE (%)						20.2	20.6	21.6

EDELWEISS 4D RATINGS	
Absolute Rating	BUY
Rating Relative to Sector	Outperformer
Risk Rating Relative to Sector	High
Sector Relative to Market	Overweight

MARKET DATA (R: GOCP.BO, B: GCPL IN)

CMP	: INR 841
Target Price	: INR 925
52-week range (INR)	: 978 / 600
Share in issue (mn)	: 340.4
M cap (INR bn/USD mn)	: 286 / 4,761
Avg. Daily Vol.BSE/NSE('000)	: 233.7

SHARE HOLDING PATTERN (%)

	Current	Q4FY13	Q3FY13
Promoters *	63.3	63.5	63.5
MF's, FI's & BK's	1.2	1.2	1.4
FII's	28.3	28.2	27.5
Others	7.2	7.1	7.6
* Promoters pledged shares (% of share in issue)	:		Nil

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Consumer Goods Index
1 month	3.6	(5.5)	9.2
3 months	1.0	(7.2)	16.8
12 months	36.3	4.9	40.8

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Q1FY14 concall | Key Takeaways



Domestic business: Domestic sales grew 19% YoY to INR9,230mn with all three core segments growing ahead of their respective categories. While total urban growth was 18% YoY, rural growth was 28% YoY.

Household insecticides (HI): HI in India grew 24% YoY, ahead of category growth. GCPL continued to gain market share across all the three sub-segments in which it is present. Electronic and aerosols are more than half of the total market now and are growing faster than coils.

Personal wash: GCPL's sales grew 13% YoY (7% YoY volume growth) in the soaps category in India, which saw significant promotions in Q1FY14. Had the company not been impacted by the new grammage rules (down from 110g to 100g), it would have seen a volume growth of more than 10% YoY. The premium category in the market has witnessed the least growth. GCPL is the No.2 player in the toilet soaps category. This segment grew ahead of the category growth, both in terms of volumes and value. *Godrej No.1* is now the third largest brand by both volumes and value in this category. It has been a high contributor to volume growth while *Cinthol* has contributed towards the value growth in the category. Currently, palm oil prices are down compared to the previous year, but the company is keeping a close watch on INR and may cut down on promotions if it remains weak.



Hair care: The hair care portfolio in India grew 32% YoY and it was also ahead of category growth. The company expects the momentum of growth to continue in this category for a few more quarters. Growth of other players in the hair colour category has not been as fast as that of GCPL, which shows that GCPL has gained market share. Of the total growth in this category, one third has come from upgrading, one fourth from market share gains, while the balance came from acquisition of new users.

New launches: One third of total domestic sales growth in Q1FY14 was driven by new launches made in the past few quarters. Most of the launches are in infant stage and will take a couple of more quarters to reflect fully in growth. There are a few more launches in the pipeline, but focus will be on new launches made in the past few quarters.

Distribution: GCPL has been growing in terms of both direct and indirect reach. In FY13, its reach increased by 10% YoY. In FY14, growth is expected to remain in the same range.

Modern trade: GCPL's modern trade grew by 31% YoY in Q1FY14 in India.

International business: Total sales of international business surged 30.5% YoY (including inorganic) to INR8,030mn with margin declining from 12.3% in Q1FY13 to 9.9% in Q1FY14.



Indonesia: Megasari sales grew 17% YoY in Q1FY14, while margin declined to 15%. The sales growth was helped by the success of new launches and distribution expansion. Margin in the Indonesian business was impacted due to the divestment of Simba business (numbers reflect in topline growth, but impact EBITDA margin by ~150-200bps). Margins were also impacted due to the ~58% minimum wage hike in Indonesia. The company believes that margin will improve gradually to previous level after a year. GCPL has taken price hikes to partially absorb the impact of the increase in wages; however, the full impact of this will be seen from Q2FY14. The company is looking for further hike in this region. *Mitu* wet tissues will be re-launched H2FY14 in Indonesia. The impact of the election in Indonesia has already



been factored in and GCPL believes that going forward no major negative impact due to election will be seen.

Africa: The African market is growing rapidly and the company believes that there is a lot of potential in this geography. Sales in the region grew 49% YoY with EBITDA margin contracting to 13%. The Darling business reported constant currency growth of 15% YoY. In Nigeria, the company has increased its distribution reach to more than 1,000 salons. The main impact in Africa is because of the depreciation of the South African Rand, which depreciated 15% against USD. The ethnic hair colour market in Africa is USD2.5bn, of which 55% is dry hair while the remaining 45% is wet hair. The new product launch in the Darling brand is also targeting the wet market. This launch does not involve any additional investment as it is under the existing Darling brand. As far as the Kinky business is concerned, the company is hopeful of a turnaround in the business by end FY14. GCPL has shut down 11 stores of Kinky as part of the store rationalisation and consolidation strategy. South Africa is seeing a downtrading in this segment as the fashion is changing. In Africa, GCPL believes that margin for FY14 will be around 18% (the earlier target of 20% margin seems unachievable in next two-three years).

Household insecticides in Africa: The first country in Africa where HI has been launched is Nigeria for which the new ad campaign will be launched in the first week of September. So far, the results have been on track and the company is in the process of obtaining registration for launching insecticides in different regions. GCPL has chalked out a five year plan to roll out HI in Africa. The product range in Africa has been customised according to different regions.

UK: This region witnessed robust sales growth which was aided by the acquisition of the fourth largest brand in UK, *Soft and Gentle*. Margin, which declined to 9%, was impacted by marketing expenses. However, the organic sales growth in this region has been strong.

Ad spend: There was a significant increase in ad spends. For the domestic business, the total ad spends increased by 74% YoY while on the consolidated level total ad spends rose 54% YoY. About three fourth of the total ad spends was targeted towards new launches. Consumer promotions are a part of the A&P expenses and more than 90% of the spends is towards media. GCPL will be maintaining the current momentum of ad spends for the coming few quarters.

Margins: The company believes that over the medium term, EBITDA growth will be in line with sales growth.

FY13 Annual Report | Key Takeaways

Overall

- In India, GCPL is the leader in hair colour, home insecticides and liquid detergents and the No. 2 player in toilet soaps (outperformed category growth in all categories).
- On the international front, the company is market leader in air fresheners and wet tissues in Indonesia, hair colours across several countries in Africa and Latin America and hair extensions in Africa. In home insecticides, the company is No.2 player in Indonesia.



- Consolidated sales grew 32% YoY in FY13 to INR64bn. EBITDA grew 16% YoY to INR10.15bn, while PAT grew 10% YoY to INR8bn.

Domestic business

- The company revamped the *Cinthol* brand with the *Alive is Awesome* campaign and also ventured into shower gels.
- GCPL also launched *Godrej Expert Rich Crème Hair Colour*, *Aer* (range of car and home air fresheners, cross pollinated from Indonesia business), new variant of *Godrej No 1 - Rosewater and Almonds*, *HIT Anti Roach Gel* and *Goodknight Advanced Colour Play*.

Household insecticides

- The category grew 13% YoY in FY13, while GCPL grew 25% YoY.

Personal wash

- The category grew 20% YoY in FY13, while GCPL grew 26% YoY.

Hair care

- *Godrej Expert Powder Hair Colour* maintained its leadership. The hair care category grew 19% YoY in FY13, while GCPL grew 14% YoY.

International

International sales break up in FY13: Indonesia—45%, Africa—25%, Latin America—19%, Europe—10% and Middle East—1%.

Indonesia

- EBITDA margin stood at 19%, while the sales growth was 29% YoY.
- The company launched *Mitu Kids* range of products and *HIT* one push aerosol.
- In January 2013, GCPL divested its non-core food business in Indonesia together with associated brands for USD35mn.
- The company is No.1 in air fresheners and wet tissues, while it is No.2 in household insecticides.

Africa

- The overall integration of the Darling Group continued to be on track. Phase 2 of the consolidation started from November 2012 and helped extend reach to the sizeable Kenyan market.
- GCPL entered the household insecticides space in Nigeria with the *Goodknight* brand in coils and aerosols.
- EBITDA margin stood at 19%, while sales grew 68% YoY in FY13.
- The company is No.1 in ethnic hair colours (14 countries) and hair extensions (10 countries). No.2 in hair extensions while No.3 in caucasian hair colours.

Europe

- The UK business launched Cuticura 8 hours hand sanitizer, a new range of shampoo and conditioners for Touch of Silver and a skin care range for Aapri.
- The company has acquired the Soft & Gentle brand (4th largest female deodorant brand by market share having strong brand equity with retailers and consumers in the UK) from Colgate-Palmolive.
- EBITDA margins were 11% while sales growth was 26% YoY in FY13.
- The company is No.1 in stretch marks skin treatment, No.2 in hand sanitisers and No.3 in sun care.

Latin America

- In Latin America, the company launched new products for Issue and cosmetic products under Pamela Grant.
- Acquisition of 60% stake in Cosmetica Nacional in Chile has resulted in significant synergies in Latin America. It also relaunched Cosmetica's flagship brand, Ilicit.
- In Argentina, GCPL added a sun protection range to the Villeneuve portfolio.
- EBITDA margin was 5% in FY13 while sales growth was 84% YoY.
- The company is No.1 in hair colours by volume, while it is No.2 in hair colours and colour cosmetics.

Table 1: Revenue split**(INR mn)**

Year to March	Q1FY14	Q1FY13	% Change YoY	Q4FY13	% Change QoQ
Net sales - domestic	9,231	7,777	18.7	9,550	(3.3)
- Personal wash	3,164	2,800	13.0	2,865	10.4
- Hair care	1,129	855	32.0	1,051	7.5
- Home Care	3,471	2,800	24.0	4,584	(24.3)
- Others	1,467	700	109.6	1,337	9.7
Net sales - consol	17,249	13,921	23.9	17,194	0.3
International	8,018	6,145	30.5	7,644	4.9
- as a % of consol sales	46.5	44.1		44.5	
Asia (Megasari)	3,190	2,710	17.7	3,430	(7.0)
Africa (Tura, Rapidol, Kinky, DGH)	2,140	1,440	48.6	1,780	20.2
Latin America (Issue Group, Argencos)	1,300	1,080	20.4	1,410	(7.8)
UK (Keyline)	1,150	730	57.5	990	16.2

Source: Company, Edelweiss research

Table 2: Financial Snapshot- Standalone (INR mn)

Year to March	Q1FY14	Q1FY13	% Change	Q4FY13	% change
Net sales	9,231	7,777	18.7	9,254	(0.2)
Other operating income	122	120	2	157	(22)
Net operating income	9,353	7,896	18.5	9,411	(0.6)
COGS	4,466	4,097	9.0	4,410	1.3
Staff costs	426	363	17.4	457	(6.9)
Advt and publicity	1,384	796	73.9	842	64.3
Other expenditure	1,613	1,365	18.2	1,850	(12.8)
Total expenditure	7,889	6,620	19.2	7,559	4.4
EBITDA	1,464	1,276	14.7	1,852	(20.9)
Interest	76	30	154.9	59	29.2
Depreciation	92	83	10.1	76	19.8
Other income	93	112	(17.0)	86	7.9
Forex gain/(loss)	(54)	(110)	(51.2)	2	(2,657.1)
PBT	1,336	1,165	14.7	1,805	(26.0)
Tax	265	246	8.0	303	(12.3)
PAT before exceptionals	1,071	919	16.5	1,503	(28.7)
Extra ordinary items (net of tax)	-	-	NM	-	NM
Reported profit	1,071	919	16.5	1,503	(28.7)
Equity capital (FV INR 1)	340	340	-	340	-
No. of shares (mn)	340	340	-	340	-
EPS (INR)	3.15	2.70	16.5	4.42	(28.7)

Source: Company, Edelweiss research

Table 3: Segmental revenue % YoY growth

Year to March	Q1FY14	Q4FY13	Q3FY13	Q2FY13	Q1FY13
Net sales - domestic	18.7	19.8	22.5	18.2	24.3
- Personal wash	13.0	19.8	20.2	24.0	42.0
- Hair care	32.0	31.8	17.1	10.0	5.2
- Home care	24.0	22.4	28.0	20.0	27.0
- Others	89.0	29.0	14.9	33.0	1.7
Net sales - consol	24.0	29.8	25.8	34.5	39.0
International	30.5	44.8	32.9	63.4	64.6
Asia (Megasari)	17.7	34.5	29.6	37.4	40.0
Africa (Tura, Rapidol, Kinky, DGH)	48.6	39.1	21.5	150.8	236.0
Latin America (Issue Group, Argencos)	20.4	72.0	82.9	92.4	94.0
UK (Keyline)	57.5	106.3	16.3	28.3	17.0

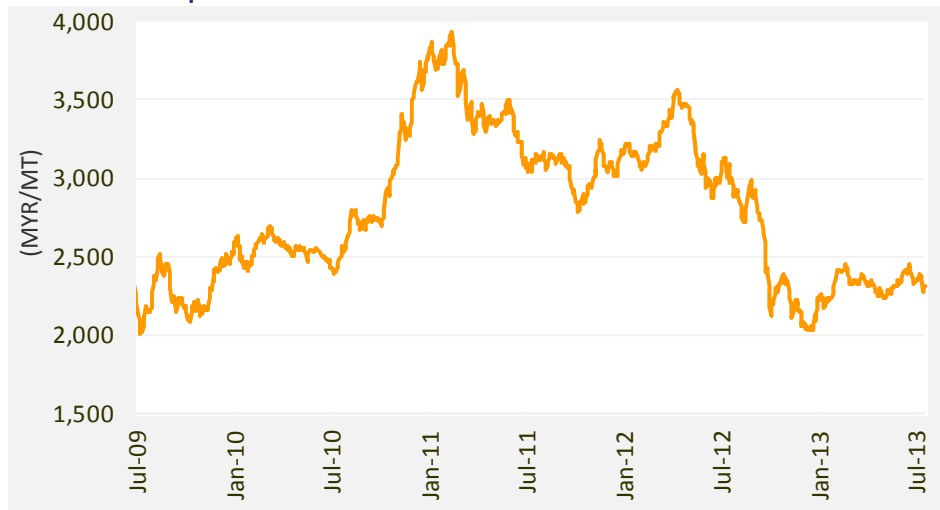
Source: Company, Edelweiss research

Table 4: International business (INR mn)

International sales and EBITDA	Revenues	EBITDA	Margins (%)
Asia (Megasari)	3,190	479	15.0
UK (Keyline)	1,150	104	9.0
Africa (Tura, Rapidol, Kinky, Darling)	2,140	278	13.0
Latin America (Issue Group, Argencos)	1,300	39	3.0

Source: Company, Edelweiss research

Chart 1: Palm oil prices correct

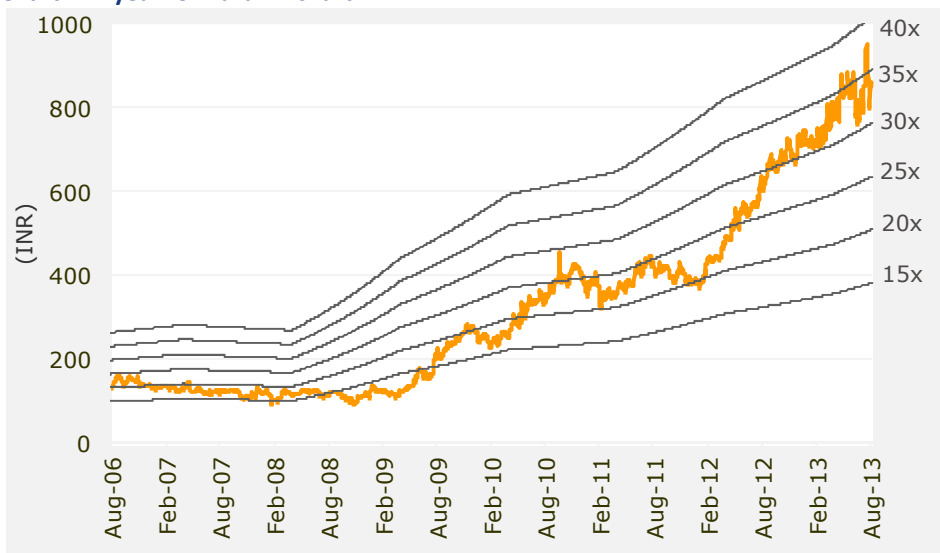


Source: Edelweiss research

Outlook and valuations: Bright; maintain 'BUY'

We like GCPL's aggression in developing categories via new launches and cross pollination of products across geographies. Integration of Kenya business (Darling phase II), growth from new launches (both domestic and international) and recovery in sales of hair colour category would further help the company post strong revenue growth. Profits from international business are likely to improve gradually and margins will start improving in FY15E. We maintain target multiple at 32x FY15E EPS; arrive at target price of INR925 (INR919 earlier). We maintain **'BUY'** and rate it **'Sector Outperformer'** on a relative return basis.

Chart 2: 1 year forward PE chart



Source: Edelweiss research

Financial snapshot

(INR mn)

Year to March	Q1FY14	Q1FY13	% change	Q4FY13	% change	FY13	FY14E	FY15E
Net revenues	17,249	13,921	23.9	17,194	0.3	64,074	78,733	93,971
Staff costs	1,792	1,289	39.0	1,713	4.6	5,907	7,243	8,645
Cost of goods sold	8,008	6,641	20.6	7,697	4.0	29,511	36,060	42,945
Advt. sales & promotions	2,391	1,531	56.2	1,626	47.1	9,589	11,810	13,908
Other expenses	2,805	2,437	15.1	3,369	(16.7)	9,244	11,416	13,532
Total expenditure	14,996	11,898	26.0	14,403	4.1	54,251	66,529	79,030
EBITDA	2,254	2,023	11.4	2,791	(19.2)	9,824	12,204	14,941
Depreciation	221	199	11.3	160	38.1	770	845	937
Other income	132	147	(10.2)	242	(45.5)	678	1,340	1,431
Foreign exchange loss / gain	(154)	(176)	(12.6)	(48)	218.4	-	-	-
Interest	240	164	46.4	222	8.4	775	911	991
Profit before tax	1,769	1,630	8.5	2,602	(32.0)	8,957	11,787	14,445
Tax	338	112	201.2	531	(36.2)	1,792	3,006	3,756
Core PAT	1,431	1,518	(5.7)	2,071	(30.9)	7,165	8,782	10,689
Minority Interest	(126)	(213)	NA	(19)	NA	(493)	(703)	(855)
Extraordinary items	22	-		1,289	(98.3)	1,289	-	-
Reported net profit	1,327	1,305	1.7	3,341	(60.3)	7,961	8,079	9,834
As % of net revenues								
COGS	46.4	47.7		44.8		46.1	45.8	45.7
Employee cost	10.4	9.3		10.0		9.2	9.2	9.2
Adv. & sales promotions	13.9	11.0		9.5		15.0	15.0	14.8
Other expenditure	16.3	17.5		19.6		14.4	14.5	14.4
EBITDA	13.1	14.5		16.2		15.3	15.5	15.9
Adjusted net profit	7.6	9.4		11.9		10.4	10.3	10.5

Company Description

GCPL is a major player in the toilet soap and hair colour categories in the Indian FMCG market. It is a leader in the hair colour category and has a vast product range across various price points. Major brands include *Godrej Hair Dye* (liquid and powder), *Godrej Kesh Kala* oil and *Nupur* hair dyes in the lower end and *Renew* and *Coloursoft* in the higher segment. It has also entered the crème hair colouring segment recently. It is the second-largest toilet soap marketer after Hindustan Unilever (HUL) with a ~12% market share and primary brands such as *Godrej No. 1*, *Cinthol* and *FairGlow*.

In 2012, GCPL completed the acquisition of 51% stake in Godrej Sara Lee Limited which had several leading brands such as GoodKnight, JET, HIT, Brylcreem and KIWI. Godrej Sara Lee's portfolio offers significant synergies to GCPL's portfolio and all the brands are performing well.

To expand its geographical presence, GCPL had made few acquisitions in the past few years. In FY06, it acquired *Keyline* brands in the UK with brands such as *Cuticura* and *Erasmic*. In FY07, it took over Rapidol, a South African company with presence across ten countries in Africa. Recently it acquired Kinky, one of the leaders in the South African hair business for South African Rand 265 mn. Kinky offers a variety of products viz. hair braids, hair pieces, wigs and wefted pieces. *Tura* and *Megasari* are among recent purchases that would boost its presence in Africa and Indonesia respectively. Its recent acquisition of 51% stake in Darling Group Holding, leader in hair extension in Africa, would further strength its position in Africa. It also entered Chile, with acquisition of 60% stake in Cosmetica Nacional.

Investment Theme

GCPL boasts of a patented technology for PHDs that has helped it drive usage of hair colours at the lower end of the market. The company also provides high-quality value-for-money soaps which helped it garner larger market share. GCPL's aggressive stance to take its operations to the international platform has resulted in several acquisitions in past three years. The company can be expected to benefit from its new ventures, increasing consumer spending and inorganic growth going forward.

Key Risks

A slowdown in rural demand due to lower government spending or a monsoon failure could impact GCPL's revenues significantly.

Some of the recent international acquisitions are still at the integration stage. GCPL needs to successfully integrate these businesses to prove its execution capabilities.

Depreciating INR can yield to rise in cost of dollar denominated debt.

GCPL's ability to gain market share in its soap segment could be adversely affected by the aggression of HUL, ITC, Wipro, etc.

The entry of players such as L'Oreal and Schwarzkopf has put pressure on GCPL's hair colour business because of which it has been losing market share at the top end of the market. Entry of local players in lower end could worsen the situation.

Financial Statements

Key Assumptions

Year to March	FY12	FY13	FY14E	FY15E
Macro				
GDP(Y-o-Y %)	6.2	5.0	5.6	6.5
Inflation (Avg)	8.9	7.4	5.2	6.0
Repo rate (exit rate)	8.5	7.5	6.8	6.0
USD/INR (Avg)	48.0	54.5	58.0	56.0
Company				
Revenue growth (Y-o-Y %)				
Volume growth (domestic)	5.6	9.1	7.9	6.3
Pricing change (domestic)	16.3	18.4	12.5	11.5
Personal wash growth (domestic)	27.6	24.1	11.2	13.3
Hair color growth (domestic)	8.9	14.1	27.6	21.0
Home care growth (domestic)	24.6	18.5	23.7	17.6
International business growth	48.9	37.6	26.1	21.4
EBITDA margin assumptions				
COGS as % of sales (Consol)	47.6	46.1	45.8	45.7
Oils and Fats (Domestic) as % of COGS	20.8	18.3	21.0	21.0
Chemicals, perfumes (Domestic) as % of COGS	12.4	11.7	11.4	11.5
Packing Materials (Domestic) as % of COGS	12.4	11.5	12.0	12.0
Staff costs as % of sales (Consol)	8.3	9.2	9.2	9.2
A&P as % of sales (Consol)	12.1	15.0	15.0	14.8
Financial assumptions				
Tax rate (Consol)	29.1	20.0	25.5	26.0
Capex (INR mn)	1,256	1,172	2,600	2,550
Debtor days	32	34	35	35
Inventory days	96	81	80	80
Payable days	87	112	110	110
Cash conversion cycle (days)	42	4	5	5
Interest rate on o/standing debt (%)	3.4	3.6	3.6	3.6
Depreciation as % of gross block	3.3	3.7	3.7	3.7
Dividend as % of net profit	21.6	21.4	30.0	30.0
Yield on cash	8.1	7.8	15.4	17.1

Income statement

(INR mn)

Year to March	FY12	FY13	FY14E	FY15E
Net revenue	48,662	64,074	78,733	93,971
Materials costs	23,156	29,511	36,060	42,945
Employee costs	4,015	5,907	7,243	8,645
Advertisement & sales costs	5,905	9,589	11,810	13,908
Other Expenses	7,032	9,244	11,416	13,532
EBITDA	8,554	9,824	12,204	14,941
Depreciation & Amortization	645	770	845	937
EBIT	7,910	9,054	11,359	14,004
Other income	520	678	1,340	1,431
Interest expenses	658	775	911	991
Profit before tax	7,771	8,957	11,787	14,445
Provision for tax	2,261	1,792	3,006	3,756
Extraordinary items (net of tax)	2,002	1,289	-	-
Minority interest	(245)	(493)	(703)	(855)
Net profit	5,265	6,672	8,079	9,834
Shares outstanding (mn)	325	340	340	340
Diluted EPS (INR)	16.2	19.6	23.7	28.9
Dividend per share (INR)	4.6	5.0	7.1	8.7

Common size metrics

Year to March	FY12	FY13	FY14E	FY15E
Materials costs	47.6	46.1	45.8	45.7
Advertising & sales costs	12.1	15.0	15.0	14.8
EBITDA margins	17.6	15.3	15.5	15.9
Net profit margins	10.8	10.4	10.3	10.5

Growth ratios (%)

Year to March	FY12	FY13	FY14E	FY15E
Revenues	31.7	31.7	22.9	19.4
EBITDA	31.0	14.8	24.2	22.4
Net profit	11.2	26.7	21.1	21.7
EPS	9.2	21.1	21.1	21.7

Balance sheet		(INR mn)			
As on 31st March	FY12	FY13	FY14E	FY15E	
Equity capital	340	340	340	340	
Reserves & surplus	27,699	32,790	38,045	44,441	
Shareholders funds	28,040	33,130	38,385	44,781	
Minority interest (BS)	882	2,095	2,798	3,653	
Short term debt	359	824	892	959	
Long term debt	15,281	18,662	20,181	21,700	
Current maturity of long term	3,129	5,078	5,491	5,904	
Borrowings	18,769	24,563	26,563	28,563	
Deferred tax liability	(5)	(140)	(140)	(140)	
Sources of funds	47,686	59,649	67,606	76,857	
Tangible assets	3,945	5,021	6,677	8,240	
Intangible assets	11,519	10,855	10,855	10,855	
CWIP (incl. intangible)	376	1,409	1,509	1,559	
Total net fixed assets	15,840	17,285	19,040	20,653	
Goodwill on consolidation	21,454	29,085	29,085	29,085	
Cash and equivalents	6,399	8,688	8,361	13,273	
Inventories	7,839	10,471	17,257	20,596	
Sundry debtors	4,725	7,288	7,550	9,011	
Other current assets	3,720	3,995	3,995	3,995	
Total current assets (ex cash)	16,284	21,754	28,801	33,602	
Trade payable	7,702	10,348	10,867	12,942	
Others current liabilities	4,588	6,814	6,814	6,814	
Total current liab & provisions	12,290	17,162	17,681	19,756	
Net current assets (ex cash)	3,994	4,592	11,120	13,846	
Uses of funds	47,686	59,649	67,606	76,857	
Book value per share (INR)	82.4	97.4	112.8	131.6	

Free cash flow		(INR mn)			
Year to March	FY12	FY13	FY14E	FY15E	
Net profit	7,267	7,961	8,079	9,834	
Add : Non cash charge	(454)	749	2,458	2,783	
Gross cash flow	6,814	8,710	10,537	12,617	
Less: Changes in WC	(41)	2,548	6,529	2,726	
Operating cash flow	6,854	6,162	4,009	9,891	
Less: Capex	1,256	1,172	2,600	2,550	
Free cash flow	5,598	4,990	1,409	7,341	

Peer comparison valuation

Name	Market cap (USD mn)	Diluted PE (X)		EV/EBITDA (X)		ROAE (%)	
		FY14E	FY15E	FY14E	FY15E	FY14E	FY15E
Godrej Consumer	4,761	35.4	29.1	25.0	20.2	20.6	21.6
Asian Paints	7,449	30.6	24.6	19.1	16.0	36.6	37.3
Colgate	2,889	31.1	26.9	22.2	18.9	114.9	105.1
Dabur	4,704	30.1	24.6	22.6	18.1	38.8	37.7
Hindustan Unilever	21,978	36.1	32.7	27.1	23.8	106.7	88.3
ITC	43,563	29.2	24.6	19.0	15.9	36.4	38.8
Marico	2,239	26.3	21.5	17.0	14.0	29.8	28.6
Nestle Ltd	8,417	40.2	32.9	23.2	19.4	57.7	53.3
AVERAGE	-	32.0	26.9	22.2	18.5	52.0	48.9

Source: Edelweiss research

Cash flow metrics					
Year to March	FY12	FY13	FY14E	FY15E	
Operating cash flow	10,985	8,283	4,009	9,891	
Investing cash flow	(8,564)	(8,157)	(2,600)	(2,550)	
Financing cash flow	(72)	2,817	(1,736)	(2,429)	
Net cash flow	2,349	2,943	(327)	4,912	
Capex	(1,256)	(1,172)	(2,600)	(2,550)	
Dividends paid	(1,820)	(1,983)	(2,824)	(3,438)	

Profitability & efficiency ratios

Year to March	FY12	FY13	FY14E	FY15E
ROAE (%)	22.2	20.2	20.6	21.6
ROACE (%)	18.6	16.9	17.9	19.4
Inventory day	96	81	80	80
Debtors days	32	34	35	35
Payable days	87	112	110	110
Cash conversion cycle (days)	42	4	5	5
Current ratio	1.8	1.8	2.1	2.4
Debt/EBITDA	2.2	2.5	2.2	1.9
Debt/Equity	0.7	0.7	0.7	0.6
Interest coverage	12.0	11.7	12.5	14.1

Operating ratios

Year to March	FY12	FY13	FY14E	FY15E
Total asset turnover	1.1	1.2	1.2	1.3
Fixed asset turnover	3.1	3.9	4.3	4.7
Equity turnover	2.1	2.1	2.2	2.3

Valuation parameters

Year to March	FY12	FY13	FY14E	FY15E
Diluted EPS (INR)	16.2	19.6	23.7	28.9
Y-o-Y growth (%)	9.2	21.1	21.1	21.7
CEPS (INR)	17.4	21.9	26.2	31.7
Diluted PE (x)	52.0	42.9	35.4	29.1
Price/BV (x)	10.2	8.6	7.5	6.4
EV/Sales (x)	6.1	4.7	3.9	3.2
EV/EBITDA (x)	34.8	30.8	25.0	20.2
Dividend yield (%)	0.5	0.6	0.8	1.0

Additional Data

Directors Data

Mr. Adi Godrej	Promoter/ Chairman/ Whole-time Director	Mr. Jamshyd Godrej	Promoter/ Non-Executive Director
Mr. Nadir Godrej	Promoter/ Non-Executive Director	Ms. Tanya Dubash	Promoter/ Non-Executive Director
Ms. Nisaba Godrej	Promoter/ Non-Executive Director	Mr. Narendra Ambwani	Non-Executive/ Independent Director
Mr. Bala Balachandran	Non-Executive/ Independent Director	Mr. Bharat Doshi	Non-Executive/ Independent Director
Dr. Omkar Goswami	Non-Executive/ Independent Director	Mr. A. Mahendran	Managing Director / Whole-time Director
Mr. Aman Mehta	Non-Executive /Independent Director	Mr. D. Shivakumar	Non-Executive /Independent Director

Auditors - Kalyaniwalla & Mistry - Chartered Accountants

**as per last annual report*

Top 10 holdings

	Perc. Holding		Perc. Holding
Aberdeen Asset Management Plc	6.55	Baytree Investments (Mauritius)	4.91
Arisaig Partners Asia Pte Ltd	2.73	Vanguard Group Inc	1.01
Commonwealth Bank Of Austr	0.98	Blackstone Asia Advisors Llc	0.78
Mirae Asset Global Investment	0.67	Blackrock Fund Advisors	0.41
Danske Invest Management Co Sa	0.26	Invesco Asset Management Ltd Id	0.25

**as per last available data*

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
No Data Available				

**in last one year*

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
07 Sep 2012	Mr. Nadir B Godrej	Sell	68126
10 Sep 2012	Nisaba Godrej	Sell	22708
10 Sep 2012	Ms Tanya Dubash	Sell	22708
14 Sep 2012	Jamshyd N Godrej	Sell	111666

**in last one year*

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Asian Paints	BUY	SP	M	Bajaj Corp	BUY	SP	M
Colgate	HOLD	SP	M	Dabur	BUY	SO	M
Emami	BUY	SP	H	GlaxoSmithKline Consumer Healthcare	HOLD	SP	M
Godrej Consumer	BUY	SO	H	Hindustan Unilever	HOLD	SU	L
ITC	BUY	SO	L	Marico	BUY	SP	M
Nestle Ltd	HOLD	SP	L	United Spirits	BUY	SO	H

ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return

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Coverage group(s) of stocks by primary analyst(s): Consumer Goods

Asian Paints, Bajaj Corp, Colgate, Dabur, Godrej Consumer, Emami, Hindustan Unilever, ITC, Marico, Nestle Ltd, GlaxoSmithKline Consumer Healthcare, United Spirits

Recent Research

Date	Company	Title	Price (INR)	Recos
05-Aug-13	Bajaj Corp	Core product sizzles again; cooling oil disappoints; <i>Result Update</i>	246	Buy
02-Aug-13	GSK Consumer	Scaling the growth path; <i>Result Update</i>	4,441	Hold
01-Aug-13	United Spirits	W&M turnaround, debt dip bring cheer; <i>Result Update</i>	2,385	Buy

Distribution of Ratings / Market Cap

Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	127	44	8	180
* 1 stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	112	54	14	

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

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