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India Research - FMCG

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Important disclosure on the last page

Godrej Consumer Products Ltd

Budget Impact

We had recommended Godrej Consumer Products Ltd (GCPL) at Rs.547 on 7th Feb 06. The stock is up 16% in three weeks since then.

In this update, we analyse the impact of measures announced in the union budget today. It's been a mixed bag for GCPL. Overall, the budget impact is marginally positive (5% rise in fair value estimate).

However, as G-Sec yields have hardened by 28bps since our initial report, we maintain our one-year out fair value point estimate of 1053 despite better expected earnings in FY07.

DCF Value Rs.1053

Price Rs.635

+66%

The stock currently trades at 23.5 times and 19.9 times the estimated EPS for FY07 and FY08 respectively. We expect the EPS to grow by 30% and 18% in FY07 & FY08. We estimate one-year out DCF value at around Rs.1053 (CoE 10.5%, WACC 10.5%). GCPL has consistently maintained high ROCE and ROE of around 100%. Its profits do not capture its strong cash flow generation.

Key Data

Market Cap	Rs.35.9bn US\$808mn
Shares Outstanding	56.5 mn
52 week High-Low	Rs.649 / Rs.260
Average Daily Volume	No. of shares
BSE+NSE 365 days	31,990
BSE+NSE 30 days	20,130
BSE Scrip Code	532424
BSE Group	A

Shareholding %

31 Dec 05

Promoters	68.2
Institutions	19.8
Others	12.0

Multiple Valuation

YE Mar-07E

EV/EBITDA	19.4x
EV/ EBIT	20.6x
Market Cap/Sales	4.4x
P/E	23.5x

Main Products & Brands

Hair Colours	Renew, ColourSoft, Godrej Liquid & Powder Hair Dye, Nupur Mehendi, Fashion Hair Colour
Soaps	Cinthol, Fairglow, Godrej No.1, Crowning Glory, Nimin, Shikakai
Fabric Care	Ezee Liquid Detergent
Baby Care	Snuggly Diapers
Home Care	Godrej Dish Wash Liquid
Toiletries	Godrej Shaving Cream, Cinthol Talc, Sanitizer, Deodorant

Key Points

- Macro measures such as increased spending on social sectors will mean increased purchasing power for consumers, especially those in rural areas.
- Increasing infrastructure spending in rural areas would mean better distribution reach.
- Reduction in custom duty on non-edible oils & fatty acids used in soaps from 20% to 12.5% means about 6% reduction in cost of oils & fats (48% of raw material cost). If the cost saving is passed on to customers fully or partly, the positive impact will play out through higher volume growth.
- Imposition of 4% CVD on import of non-edible oils for making soaps will not have any impact, as it will get credit against excise duties payable.
- Packing material costs likely to come down by 3-4% as custom duty on most types of plastics has been reduced by 4-5%.
- MAT (the minimum alternate tax) is the only negative for GCPL in the budget. GCPL is expected to pay MAT over the next few years. The MAT rate from FY07 will be 11.22% as against 8.415% of book profits till FY06.
- Excise duty of 16% imposed on Soaps manufactured under Janata Soap Scheme. GCPL does not make soaps under this scheme and hence will not be impacted. Exemption from excise duty on soaps made without aid of power has been removed. Both these measures are structurally positive for GCPL.
- Excise duty of 8% imposed on Henna powder not mixed with any other ingredient. GCPL will not be impacted as it mixes other ingredients to Henna Powder (Brand: Nupur Mehendi).



Income Statement

Rs. Mn.	Mar-06E	Mar-07P	Mar-08P
Revenues	6,793	8,157	9,811
EBIT	1,308	1,744	2,052
PBT	1,297	1,718	2,050
Adj. PAT	1,177	1,527	1,806
EPS Rupees	20.83	27.02	31.97

Ratios

	Mar-06E	Mar-07P	Mar-08P
Revenue Growth %	9.4	20.1	20.3
EPS Growth %	42.2	29.7	18.3
RoE %	108.3	106.2	100.0
D/E x	0.5	0.5	-
Receivables days	5	5	5
FG Inventory days	20	20	19
Suppliers Credit days	115	115	115

Balance Sheets

Rs. Mn.	Mar-06E	Mar-07P	Mar-08P
Assets			
Net Block	1,114	1,614	1,514
Investments	485	485	512
Net Current Assets	(528)	(637)	(766)
Liabilities			
Equity Capital	226	226	226
Reserves	449	678	949
Debt	317	483	-
Non-Current Liab.	80	75	86

Interim Performance

Rs. Mn.	Dec-05	Dec-04	Ch %
No. of months:	9	9	
Net Revenues	4,939	4,250	16.2
EBITDA	1,006	762	32.0
Depreciation	82	80	2.3
EBIT	924	682	35.4
Interest & Fin charges	29	24	19.2
Other Income	92	15	
PBT	988	674	46.6
Tax	78	66	17.2
PAT	910	681	33.7
Equity Capital	226	226	
EPS -annualized	21.51	16.05	34.0

Interim Ratios

%	Dec-05	Dec-04	Ch %
No. of months:	9	9	
EBITDA / Sales	20.5	17.7	2.8
EBIT / Sales	18.8	15.8	3.0
Tax/PBT	9.8	7.8	2.0
Material cost /Sales	51.0	46.9	4.1
Staff cost/Sales	6.3	5.4	-0.9
Ad & sales promo /Sales	7.7	9.3	1.6
Other costs/sales	18.6	16.7	-1.9

Multiple Valuation

	Mar-06E	Mar-07P	Mar-08P
EV/EBITDA x	25.4	19.4	16.3
EV/EBIT x	27.5	20.6	17.5
Mkt. Cap/Sales x	5.2	4.4	3.7
P/E x	30.5	23.5	19.9
Price/Book x	53.2	39.7	30.5

Free Cash Flow

Rs. Mn.	Mar-06E	Mar-07P	Mar-08P
NOPLAT	1,187	1,550	1,807
Change in Net Working Capital	(141)	(94)	(117)
Operating Cash Flows	1,328	1,644	1,924
Net Capex & others	105	504	(111)
Free Cash Flow	1,222	1,140	2,035
Non-opr. Cash flow	15	30	31
Cash Flow to Investors	1,238	1,170	2,066

Financing Cash Flow

Rs. Mn	Mar-06E	Mar-07P	Mar-08P
Post-tax Interest	25	53	32
Repayment/ (issue) of Debt	(262)	(166)	483
Equity Share Dividend Buyback/Redn/ (issue) of equity shares	988	1,283	1,523
Increase in cash/Investments	0	-	-
	485	-	-
Financing Cash Flow	1,238	1,170	2,066

DCF Valuation

	Rs. Mn.	%
Key Assumptions		
Terminal Growth Rate		4.0
WACC		10.5
Cost of Equity		10.5
Terminal ROIC		30.2
Per share Value (Rs.)	1053	



Important Disclosure

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