

Applied Corporate Finance Project for M/s. Godrej Consumer Products Ltd

(Finance Elective Paper in III Semester)

*Mini Project Report submitted in partial fulfillment of the requirements for the award of the
Degree of Master of Business Administration*

Submitted by

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RVS INSTITUTE OF MANAGEMENT STUDIES & RESEARCH

(Autonomous, Affiliated to Bharathiar University)

NAAC Re-accredited & ISO Certified Institution

SULUR, COIMBATORE – 641 402.

November 2016

**Applied Corporate Finance Project for
M/s. Godrej Consumer Products Ltd**

CERTIFICATE

This is to certify that this is a bonafide Applied Corporate Finance Project for M/s.

..... work done by

Mr/Ms.....

Register No..... during the study period of Second Year Master of

Business Administration, 2016-17.

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Signature of the Staff-in-charge

Signature of the Director

Date:

Place: Sulur, Coimbatore

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Applied Corporate Finance Project for M/s. Godrej Consumer Products Ltd.

I. Introduction

Financial statement analysis is the process of reviewing and evaluating a company's financial statements thereby gaining an understanding the financial health of the company and enabling effective decision making for owners and managers, prospective and present investors, financial institutions, government entities etc. It involves analysis of past, current and projected performance of the company.

Financial statements are normally available in company's website, prospectus as also the annual and the quarterly results declared by the company. These statements by themselves contain a lot of numbers which are in comprehensible unless a proper analysis of such documents is carried out to arrive at a conclusion on the company's financial health.

The present study is primarily intended to unearth the Corporate Finance applications with **"Godrej Consumer Products Ltd."**

II. Objectives

The study is conducted with the following specific objectives:

- To understand overall Corporate Governance of the Company
- To measure Risk free rate, Equity Risk premium, Market returns, Beta, Cost of equity and Cost of Capital of the company
- To calculate the Fundamental beta.
- To identify the optimal capital structure of the company.
- To understand the dividend policy of the company and to provide findings and recommendations to the companies for effective corporate decision making.

III. Company Overview

Godrej Consumer Products Ltd is an Indian consumer goods company based in Mumbai, India. GCPL's product range includes soaps, hair colorants, toiletries and liquid detergents. Some of the leading brands are 'Cinthol', 'Godrej Fair Glow', 'Godrej No.1' and 'Godrej Shikakai' in soaps, 'Godrej Powder Hair Dye', 'Renew', 'ColourSoft' in hair colorants and 'Ezee' liquid detergent. GCPL has five manufacturing facilities in India at Malanpur (Madhya Pradesh), Guwahati (Assam), Baddi- Thana (Himachal Pradesh), Baddi- Katha (Himachal Pradesh) and Sikkim. The Consumer Products business was part of the erstwhile Godrej Soaps Limited (GSL) and was demerged into Godrej Consumer Products Limited in April 2001, pursuant to a scheme of demerger approved by the Hon'ble High Court of Judicature, Mumbai, dated March 14, 2001.

IV. Vision, Mission of the Company

Vision

Our vision is to be a leader in the Indian Food and beverage space by breaking into the exclusive league of top ten FMCG food companies in India. Godrej in Every Home and Work place

Mission

- Godrej Mission is to operate in existing and new businesses which capitalize on the Godrej brand and corporate image of reliability and integrity.
- Godrej objective is to delight its customer both in India and abroad.
- Godrej shall strive for excellence by nurturing, developing and empowering its employees and suppliers.
- Godrej encourages an open atmosphere, conducive to learning and teamwork

V. Corporate Governance

a) CEO

- **Adi Burjorji Godrej** (born 3 April 1942), is an Indian Industrialist and businessman, head of the Godrej Family and the chairman of the Godrej Group.
- **Mr. Adi Godrej**, Chairman receive remuneration of **18.68 Crores** in 2015-16 from the Company and receives commission from Company's holding Company viz. Godrej and Boyce Manufacturing Company Limited and Payables of **11.04 Crores** in 2015-16.

b) Board of Directors

- ✓ **Adi Godrej** (Chairman, Godrej Group)
- ✓ **Vivek Gambhir** (Managing Director)
- ✓ **Nisaba Godrej** (Executive Director/ Daughter of Mr. Adi Godrej)
- ✓ **Nadir Godrej** (Non-Executive Director/ Brother of Mr. Adi Godrej)
- ✓ **Jamshyd N. Godrej** (Non-Executive Director)
- ✓ **Tanya Dubash** (Non-Executive Director / Daughter of Mr. Adi Godrej)
- ✓ **Aman Mehta** (Independent Director) (Span: Sep 26th 2014 to Sep 25th 2019)
- ✓ **Bharat Doshi** (Independent Director) (Span: Sep 26th 2014 to Sep 25th 2019)
- ✓ **D. Shiva Kumar** (Independent Director) (Span: Sep 26th 2014 to Sep 25th 2019)
- ✓ **Ireena Vittal** (Independent Director) (Span: Sep 26th 2014 to Sep 25th 2019)
- ✓ **Narendra Ambwani** (Independent Director) (Span: July 28th 2014 to July 27th 2019)
- ✓ **Omkar Goswami** (Independent Director) (Span: Sep 26th 2014 to Sep 25th 2019)

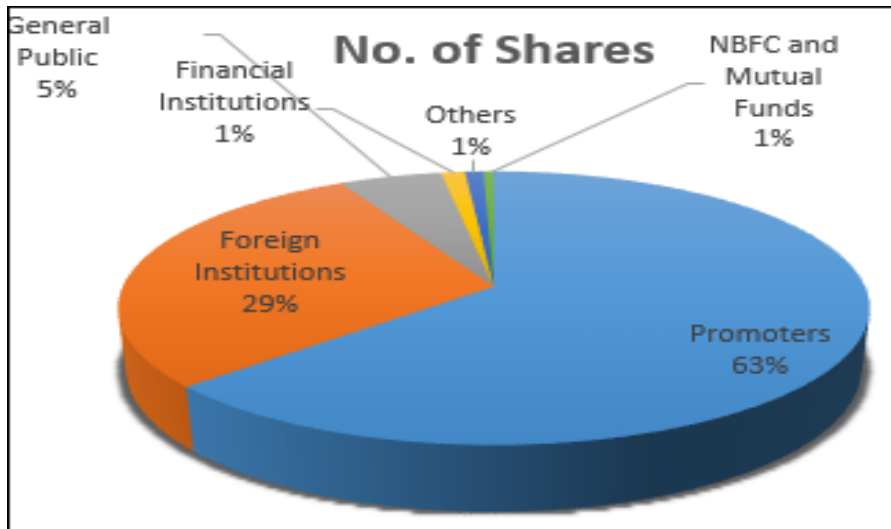
c) Relationship with Financial Market and Society

- This company stock is held and traded at **National Stock Exchange (NSE)** and **Bombay Stock Exchange (BSE)**. It is a publicly offered company, so major proportions of its shares are widely traded.
- Since it's a publically offered company, so there will be a numerous analysts follow the firm.
- On August 16th, Volume traded on this stock is 264,563 (Rs.1527.95) at NSE and 11,294 (Rs.1533.00) at BSE.
- It earned its good reputation with the **quality** and **value for money** consumer products it sold till date.
- Godrej as a brand **never been a target** of social criticism in the recent past.

VI. Stockholder Analysis

S.No		Details
1	Listings	NSE,BSE
2	Type of Shares	Equity Shares
3	Share Holding of Promoter and Promoter Group	215,496,082
4	Share Holding of Promoter and Promoter group (%)	63.27%
5	Share Price	Rs.1450

Category	No. of Shares	Percentage
Promoters	215,496,082	63.27
Foreign Institutions	98,614,373	28.95
General Public	17,489,527	5.13
Financial Institutions	4,094,425	1.2
Others	3,130,621	0.92
NBFC and Mutual Funds	1,775,788	0.52



VII. Risk and Return Analysis

Risk free rate (Rf) for India	Rf = 10 Year Zero Bond yield – Default Country Spread Rf = 7.4 % - 2.44 %	5% Approx.
Equity Risk Premium (Historical Returns Method)	ERP = Base premium for mature market + Country Risk Premium Country Risk Premium = Country Default Spread x $\left(\frac{Equity}{CountryBond}\right)$ * The Current US Market risk premium is 4.8%	Country Risk Premium for India = 2.44% x 1.5 = 3.6% ERP = 4.8%* + 3.6% = 8.4% (8% Approx.)
Market Returns (Rm)	Rm = ERP + Rf	Rm = 8.4 % + 5 % Rm = 13.4%

Beta	Covariance (Asset and Market) / Variance of the Market (or) SLOPE / LINEST in Excel	$\beta = 0.92$
Cost of Equity	$Re = Rf + \beta (Rm - Rf)$	Re=12.37%
Cost of Debt	(Opening Interest + Closing Interest) / (Opening ST & LT Loans + Closing ST & LT Loans)	Cd=4.2%
We	Market Capitalization on Equity / (M.Cap. Equity + Debt (LT & ST))	We=94.9%
Wd	Debt / (M.Cap. Equity + Debt (LT & ST))	Wd=5.1%
Cost of Capital (WACC)	$We*Re + Wd*Rd(1-Taxrate)$ Assume Tax Rate is 30%	Cc=11.89%

Calculating Fundamental Beta

Historical Beta

Beta of the Company	0.92
Debt/Equity Ratio	0.06

Similar Type of Companies under the same Sector	Beta	D/E	Tax rate
ITC Limited	0.27	0.001	30%
Marico Limited	0.29	0.018	30%

Unlevered Beta Computation for ITC Limited and Marico Limited	
Formula	$BL/(1+D/E(1-t))$
ITC Limited	0.27
Marico Limited	0.29
Average (Unlevered Beta)	0.28

Levered Beta for Godrej Consumer Products Limited	
Formula	$BUL \times (1 + D/E(1-t))$
Levered Beta	0.29

VIII. Cost of Capital

Equity Share capital Value (Book Value)	5097.68
Debt (Long term + Short term & Others)	2891.12
D/E Ratio	0.57
Debt to Capital Ratio	0.36

Market Cap Value as on 30 th Sep 2016	49301.97
Debt (Long term + Short term & Others)	2891.12
D/E Ratio	0.059
Debt to Capital Ratio	0.055

Cost of Capital Vs. Cost of Debt

Cost of Capital (CoC)=11.89%

Cost of Debt (CoD)= 4.2%

Here CoC is greater than CoD i.e. **(CoC > CoD)**

Benefits of using Debt

- Cost Reduction
- Profit Retention
- Financial Leverage
- Tax Savings

Optimal Capital Structure

a) Cost of Capital Approach

Government Bond Yield	7%	E	5097.68
Risk Free Rate	5%	D	2891.12
ERP	8%		
Tax Rate	30%		
Current D/E	0.57		
Unlevered Beta	0.66		

Debt to Capital is	Rating is	Spread is	Cost Of Debt	D/E	Levered Beta	Cost of Equity	Cost Of Capital
0	AAA	0.50%	7.50%	-	0.66	10.3%	10.27%
0.1	AA	1.00%	8.00%	0.11	0.71	10.7%	10.17%
0.2	A	1.50%	8.50%	0.25	0.77	11.2%	10.14%
0.3	BBB	2.00%	9.00%	0.43	0.86	11.8%	10.18%
0.4	BB	2.50%	9.50%	0.67	0.97	12.7%	10.30%
0.5	B	3.00%	10.00%	1.00	1.12	14.0%	10.48%
0.6	CCC	3.50%	10.50%	1.50	1.35	15.8%	10.73%
0.7	CC	4.00%	11.00%	2.33	1.73	18.9%	11.05%
0.8	C	5.00%	12.00%	4.00	2.50	25.0%	11.72%
0.9		7.00%	14.00%	9.00	4.81	43.5%	13.17%
1	D	7.00%	14.00%	-			

Minimum Value , so optimum Debt Equity ratio should be 0.25

b) Operating Income Approach

Government Bond Yield	7%
Risk Free Rate	5%
ERP	8%
Tax Rate	30%
Current D/E	0.57
Unlevered Beta	0.66

Debt to Capital is	Rating is	Spread is	Cost Of Debt	D/E	Levered Beta	Cost of Equity	Cost Of Capital	FCFF	Fall in EBIT	Value of the Firm
0	AAA	0.50%	7.50%	-	0.66	10.3%	10.27%	1,103		18,305
0.1	AA	1.00%	8.00%	0.11	0.71	10.7%	10.17%	1,103	0%	18,596
0.2	A	1.50%	8.50%	0.25	0.77	11.2%	10.14%	1,103	0%	18,681
0.3	BBB	2.00%	9.00%	0.43	0.86	11.8%	10.18%	1,048	5%	17,627
0.4	BB	2.50%	9.50%	0.67	0.97	12.7%	10.30%	1,021	8%	16,858
0.5	B	3.00%	10.00%	1.00	1.12	14.0%	10.48%	993	10%	15,941
0.6	CCC	3.50%	10.50%	1.50	1.35	15.8%	10.73%	965	13%	14,918
0.7	CC	4.00%	11.00%	2.33	1.73	18.9%	11.05%	938	15%	13,830
0.8	C	5.00%	12.00%	4.00	2.50	25.0%	11.72%	910	18%	12,256
0.9	D	7.00%	14.00%	9.00	4.81	43.5%	13.17%	883	20%	10,015
1	D	7.00%	14.00%	Infinite						

Max value, So optimal Debt equity ratio is 0.25

EBIT	1,576
EBIT (1-t)	1,103
Capex	103
Depreciation	103
Change in Working Capital	
FCFF	1,103
Terminal Growth Rate	4%

c) Adjusted Present Value Approach

Debt to Capital is	Rating is	Default Probability	Total Debt	Tax Benefit of the Debt	Expected Cost of Default	Unlevered Firm Value	Levered Firm Value											
0	AAA	0.07%			9	50,492	50,483											
0.1	AA	0.51%	5,129	1,539	65	50,492	51,966											
0.2	A	0.66%	10,259	3,078	85	50,492	53,485											
0.3	BBB	7.54%	15,388	4,616	967	50,492	54,142											
0.4	BB	16.63%	20,518	6,155	2,133	50,492	54,515	Maximum, so debt capital ratio is 0.4 and Debt Equity ratio is 0.66										
0.5	B	36.80%	25,647	7,694	4,719	50,492	53,467											
0.6	CCC	59.01%	30,777	9,233	7,567	50,492	52,158											
0.7	CC	70.00%	35,906	10,772	8,976	50,492	52,288											
0.8	C	85.00%	41,035	12,311	10,900	50,492	51,903											
0.9	D	100.00%	46,165	13,849	12,824	50,492	51,518											
1	D	100.00%	51,294	15,388	12,824	50,492	53,057											
Market Value of Equity	49,302																	
Debt	2,891																	
Cash	899	Cash + Current Investments																
Enterprise Value	51,294																	
Tax Benefit of Current Debt	867.34																	
wd	0.06																	

d) Sector Approach

Company	Market Cap	Debt	D/E
ITC Limited	294,395.81	87	0.03%
Marico Limited	32,234.93	153	0.5%
Sector Average			0.3%

If we take book value into consideration debt equity ratio is 0.25 from Cost of Capital and Operating Income Approach. Compared to book value, taking Market value into consideration is good way because it is near to present situation. So in Adjusted Present Value Approach the debt equity ratio is 0.66 and current company debt to equity ratio is 0.57. So company can increase their debt from **57 % to 66%**.

IX. Dividend Policy

(a). Dividend Summary

Dividend Summary

For the year ending March 2016, Godrej Consumer Products has declared an equity dividend of 575.00% amounting to Rs.5.75 per share. At the current share price of Rs.1420.50 this results in a dividend yield of 0.4%.

The company has a good dividend track report and has consistently declared dividends for the last 5 years.

* As per the Profit & Loss account

Dividend Declared

Announcement Date	Effective Date	Dividend Type	Dividend (%)	Remarks
30-09-16	15-11-16	Interim	100.00	Rs.1.0000 per share(100%)Interim Dividend
04-07-16	05-08-16	Interim	100.00	Rs.1.0000 per share(100%)Interim Dividend
05-04-16	10-05-16	Interim	275.00	Rs.2.7500 per share(275%)Interim Dividend
31-12-15	03-02-16	Interim	100.00	Rs.1.0000 per share(100%)Third Interim Dividend
30-09-15	30-10-15	Interim	100.00	Rs.1.0000 per share(100%)Second Interim Dividend
30-06-15	05-08-15	Interim	100.00	Rs.1.0000 per share(100%)First Interim Dividend
06-04-15	05-05-15	Interim	250.00	Rs.2.5000 per share(250%)Interim Dividend
05-01-15	12-02-15	Interim	100.00	Rs.1.0000 per share(100%)Third Interim Dividend
08-10-14	11-11-14	Interim	100.00	Rs.1.0000 per share(100%)Second Interim Dividend
08-07-14	01-08-14	Interim	100.00	Rs.1.0000 per share(100%)Interim Dividend
11-04-14	06-05-14	Interim	225.00	Rs.2.2500 per share(225%)Interim Dividend
10-01-14	07-02-14	Interim	100.00	Rs.1.0000 per share(100%)Third Interim Dividend
22-10-13	18-11-13	Interim	100.00	Rs.1.0000 per share(100%)Interim Dividend
03-07-13	08-08-13	Interim	100.00	Rs.1.0000 per share(100%)Interim Dividend
01-04-13	08-05-13	Interim	200.00	Rs.2.0000 per share (200%) Fourth Interim Dividend
31-01-13	07-02-13	Interim	100.00	Rs.1.0000 per share(100%)Third Interim Dividend
12-10-12	08-11-12	Interim	100.00	Rs.1.0000 per share(100%)Second Interim Dividend
03-07-12	10-08-12	Interim	100.00	Rs.1.00 per share(100%)Interim Dividend
09-04-12	09-05-12	Interim	175.00	Fourth Interim Dividend
10-01-12	30-01-12	Interim	100.00	Third Interim Dividend
04-10-11	01-11-11	Interim	100.00	Second Interim Dividend
07-07-11	29-07-11	Interim	100.00	-
21-04-11	09-05-11	Interim	150.00	Fourth Interim Dividend
13-01-11	28-01-11	Interim	100.00	Third Interim Dividend
20-10-10	08-11-10	Interim	100.00	Second Interim Dividend
15-07-10	30-07-10	Interim	100.00	-
13-04-10	03-05-10	Interim	125.00	Interim Dividend

05-01-10	01-02-10	Interim	100.00	Third Interim Dividend
27-07-09	13-11-09	Interim	100.00	Second Interim Dividend
04-05-09	03-08-09	Final	175.00	Final Dividend Re.0.75 per share (75%) & Interim Dividend of Rs.1/- (100%) for the Year 2009-10 declared as on 25/7/2009.
17-04-09	11-05-09	Interim	75.00	Fourth Interim Dividend
07-01-09	29-01-09	Interim	100.00	Third Interim Dividend
06-10-08	31-10-08	Interim	75.00	Second Interim Dividend
18-06-08	01-08-08	Final	150.00	(75% Final Dividend and 75% Interim Dividend for 2008-09.
07-04-08	05-05-08	Interim	75.00	-
08-01-08	23-01-08	Interim	100.00	Third Interim Dividend
12-10-07	30-10-07	Interim	75.00	Second Interim Dividend
13-07-07	07-08-07	Interim	75.00	-
30-03-07	03-05-07	Final	125.00	Forth Interim Dividend
27-12-06	25-01-07	Interim	100.00	Third Interim Dividend
28-09-06	06-11-06	Interim	75.00	Second Interim Dividend
30-06-06	27-07-06	Interim	75.00	(75% on the shares of the face value of Rs.4/- each) for the financial year 2006-07.
31-03-06	04-05-06	Interim	125.00	Fourth Interim Dividend
28-12-05	25-01-06	Interim	75.00	Third Interim Dividend
06-10-05	27-10-05	Interim	75.00	Second Interim Dividend
28-06-05	28-07-05	Interim	75.00	75% on the shares of the face value of Rs.4/- each
28-04-05	04-05-05	Final	125.00	AGM
30-12-04	25-01-05	Interim	75.00	Third Interim Dividend
11-10-04	04-11-04	Interim	50.00	Second Interim Dividend ((50% on the shares of the face value of Rs.4/- each) for the FY 2004-05.)
23-07-04	28-07-04	Interim	50.00	-
08-04-04	30-04-04	Interim	75.00	4th Interim Dividend@Rs.3/- per share [75% on the shares of the face value of Rs.4/-]
22-01-04	06-02-04	Interim	50.00	Third Interim Dividend
01-10-03	30-10-03	Interim	50.00	Second Interim Dividend
01-07-03	30-07-03	Final	50.00	50% Final Dividend & 50% Interim Dividend for 2003-2004.
02-07-03	30-07-03	Interim	50.00	50% Final Dividend & 50% Interim Dividend for 2003-2004.

01-01-03	29-01-03	Interim	50.00	Interim Dividend of Rs.2 per share (50% on the shares of the face value of Rs.4 each) for the financial year 2002-03.
03-10-02	30-10-02	Interim	50.00	Second Interim Dividend

Source: **Dion Global Solutions Limited**

(b). Assessment of Dividend Policy

(In Crores)

	2014	2015	2016
Long Term Debt	1,591	2,023	2,449
Current liabilities	2,700	2,603	2,485
Current Assets (Less cash)	2,011	2,044	2,648
Net Profits	760	907	1,119
Depreciation and Amortization	82	91	103
Capital Expenditure	615	842	855
Change in Debt		432	426
Change in Current Assets		32	604
Change in Current Liabilities		(97)	(117)
Free Cash Flow to Equity		458	71
Dividend Paid (including taxes)	209.07	224	236
Equity Value	3775.4	4,311	5,098
Return on Equity	20.1%	21.0%	22.0%
Cost of Equity	12.4%	12.4%	12.4%
Dividend Payout Ratio	27.5%	24.7%	21.1%

Here Return on Equity is greater than the Cost of Equity (RoE > CoE). So the company is creating value on retained money. It means the company is creating value by investing that money in good projects.

(c). Assessment of Dividend Policy with Peers

(In Crores)

Particular	Godrej Consumer Products Ltd.		Peer 1 (ITC)		Peer 2 (Marico)	
	2014-15	2015-16	2014-15	2015-16	2014-15	2015-16
Net Profits	907	1,119	9,608	9,845	573	725
Dividend Paid (including taxes)	224	236	5,999	8,182	175	502
Payout Ratios	24.7%	21.1%	62.4%	83.1%	30.4%	69.3%

The dividend payout ratio measures the percentage of net income that is distributed to shareholders in the form of dividends during the year. Here if we see in Godrej Consumer Products Ltd. The net profits are increased but there is decrease in Payout ratio. This indicates company is reinvesting its dividends in other projects. This also a good sign that company is looking to bring good changes and they are trying to expand their market. Here if we see Peer Companies, the dividend payout ratio is increasing that indicates majority of profits they are distributing to shareholders. This indicates peer companies is not looking to bring more changes in their company and the shareholders are on the safe side. This also indicates company is not so interested in investing in riskier projects. so majority of profits they are distributing to shareholders. Here Godrej Consumer Products Ltd has less payout ratios compared to the Peer Companies. In 2014-15 Godrej Consumer Products Ltd and Marico have almost same Payout ratio after that Marico raised the dividends.

For the Company Godrej Consumer Products Ltd. there is no any Buybacks. The Buyback Percentage is 0%.

X. Major Findings

- Share Holding of Promoters and Foreign Institutions is **92%**.
- Fundamental Beta of Godrej Consumer Products Ltd. is **0.92** which is less than 1 (<1). This indicates Company is **less volatile than the market**.
- Here **Cost of debt (4.2%) is less than the cost of Capital (11.89%)**. This indicates a good sign because It is cheaper than equity finance, since the lender faces less risk than a shareholder would, and also because the debt interest is tax deductible. However, the interest is an obligation which cannot be avoided, so debt is a less flexible form of finance than equity.

- In **Cost of Capital Approach**, we realize that the cost of capital first goes down as we increase the debt, and then after reaching Optimal level, starts rising again as cost of equity and debt both begin rising with higher debt levels. The Optimal Debt Equity Ratio is **0.25**.
- In **Operating Income Approach**, we realize that the highest firm value is at debt equity of **0.25**. The Income drop results in the firm value dropping, even though cost of capital is lower elsewhere.
- In **Adjusted Present Value Approach**, the optimal Debt Capital ratio is **0.4**. This means Debt Equity ratio is **0.67**.
- In **Sector Approach**, looking at peers such as ITC and Marico, we see that average Debt Equity ratio should be about **0.3%** for Godrej Consumer Products Ltd. which is very low.
- In **Dividend Policy**, return on Equity is greater than the cost of Equity (RoE > CoE). So the company is creating value on retained money. It means the company is creating value by investing that money in good projects.
- In **Dividend Policy**, Free cash flow to Equity got decrease from 2015 to 2016. This Free Cash Flow to Equity means how much cash we can pay to the shareholders. It implies that company is reinvesting in good projects to expand its market.
- Here Godrej Consumer Products Ltd has less payout ratios compared to the Peer Companies ITC and Marico. The **Dividend Payout ratios** of Godrej Consumer Products Ltd. is showing **decreasing trend** every year from 2014-2016. This indicates that company can no longer afford to pay such high dividends. This could be an indication of poor operating performance.

XI. Recommendations

- I recommend company to follow **Adjusted Present Value Approach** in assessing Optimal Capital Structure as here we are taking market values then the book value. Compared to book value, taking Market value into consideration is good way because it is near to present situation.
- I advise company that they can raise their debts from **57% to 66%**. As optimal Debt Equity ratio in Adjusted Present Value Approach is 0.66 such that company can get tax benefits, financial leverage etc.
- From the Shareholders' point of view, the company which is giving more Dividend is good for the shareholders'. So I recommend this company to **increase their DPS** (Dividend per share). This tends to attract the shareholders in investing more and more.

XII. Conclusion

In the present study, I understood overall Corporate governance and Dividend Policy of Godrej Consumer Products Ltd. It is concluded that the company can increase their Debt Equity ratio from **0.57 to 0.66**. It is also concluded that company has to take necessary steps to **increase their Dividend Per Share (DPS)**.

XIII. References

1. <http://www.godrejcp.com/>
2. <http://www.itcportal.com/>
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