

Industry Cons. Staples
Bloomberg GCPL IN
BSE CODE 532424

Headwind related to Africa business continues

RATING	NEUTRAL
CMP	715
Price Target	786
Potential Upside	10%

Rating Change	↓
Estimate Change	↓
Target Change	↓

Stock Info

52wk Range H/L	980/602
Mkt Capital (Rs Cr)	73064
Free float (%)	37%
Avg. Vol 1M (,000)	1174
No. of Shares (Cr)	102
Promoters Pledged %	NA

Research Analyst

RAJEEV ANAND

rajeev.anand@narnolia.com
+91-22-62701229

Key Highlights -

- Godrejcp's result for Q2FY19 remained below than our expectations, sales grew by 6% to Rs 2659 cr(vs our expectation of Rs 2728 cr) while EBITDA declined by 8% to Rs 487 cr(vs expec. Rs 593 cr).
- Domestic volume grew by 5% impacted by decline in Household Insecticide (HI) by 2%. Growth from Soaps, Hair colour and other brands remained 11%, 21% and 36% in Q2FY19.
- Growth in International business was 1%impacted by divestment of Europe business and rapid growth from Africa region. Positive for this quarter remained Indonesia business which grew by 14% in cc terms although on a weaker base (down by 7%in Q2FY18).
- Gross margin declined by 346 bps led by lower margin from the Africa business (due to lag between input inflation & pricing action) . EBITDA margin declined by 291 bps(adj margin declined by 330 bps) led by decline in International business adj. margin by 430 bps YoY.

2Q FY19 Results-

Sales for the quarter grew by 6% impacted by lower growth in HI and muted growth in Africa business while PAT grew by 60% YoY backed by exceptional gain of Rs 260 cr led by divestment of UK business (~Rs 70 cr)and change in earn out liability of subsidiary(~Rs 195 cr). Domestic vol. grew by 5% impacted by lower HI growth due to erratic monsoon especially in South & East India and growing presence of incense sticks. Domestic business gross margin improved by 100 bps led by benign palm oil and cost saving initiatives. IB grew by 1%(compa. cc growth 6%) led by Indonesia business. Adj. Ebita margin declined by 430 bps led by deterioration in margin of Gaum by 710 bps.

View and Valuation

Godrejcp's result for Q2FY19 was below than our expectation, sales up by 6% while adj. con.PAT declined by 2% due to deterioration in margin from Africa business. For domestic business, seasonality impacted Home Insecticide. Going forward,we do not see South African business stabilizing soon and the pricing action taken by the company may adversely impact the volume. On domestic front, continued stress in Home Insecticide business for last two years makes us little optimistic about this business although management is taking corrective measures . Considering below than expected margin in Q2 we have reduced our PAT estimates by 7%/5% for FY19e/FY20e respectively and reduced our target price to 786(44x FY20e's eps) from 826 with Neutral rating.

Key Risks to our rating and target

- Strong growth from Africa business with the margin improvement.

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19E	FY20E
Net Sales	8424	9268	9843	10757	12140
EBITDA	1636	1898	2067	2211	2594
EBIT	1535	1756	1911	2039	2421
Adj.PAT	1086	1308	1494	1654	1826
EPS (Rs)	11	13	15	16	18
EPS growth (%)	18%	20%	14%	11%	10%
ROE (%)	25%	25%	24%	23%	23%
ROCE (%)	22%	20%	22%	21%	25%
BV	42	52	61	70	78
P/B (X)	12	11	12	10	9
P/E (x)	46	43	48	44	40

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2Q FY 19 Results
Below than our expectation.

<i>Financials</i>	<i>2QFY18</i>	<i>3QFY18</i>	<i>4QFY18</i>	<i>1QFY19</i>	<i>2QFY19</i>	<i>YoY %</i>	<i>QoQ%</i>	<i>FY17</i>	<i>FY18</i>	<i>YoY %</i>
Net Sales	2,507	2,630	2,529	2,476	2,659	6.1%	7.4%	9,268	9,843	6.2%
Other Income	19	36	29	31	26	37.0%	-16.0%	75	108	42.8%
COGS	1,097	1,126	1,038	1,095	1,256	14.5%	14.7%	4,133	4,274	3.4%
Gross Margin	56%	57%	59%	56%	53%	-3.5%	-3.0%	55%	57%	1.2%
Employ. Cost	262	280	275	296	257	-2.0%	-13.3%	988	1,057	7.0%
A&P Expen.	212	226	182	209	256	20.8%	22.4%			
Other Expen.	393	399	438	432	404	2.8%	-6.5%	2,249	2,444	8.7%
EBITDA	532	589	597	444	487	-8.5%	9.6%	1,898	2,067	8.9%
EBITDA Mar.	21%	22%	24%	18%	18%	-2.9%	0.4%	20%	21%	0.5%
Depreciation	39	40	40	42	43	10.4%	1.0%	142	156	10.0%
EBIT	493	549	557	402	444	-9.9%	10.5%	1,756	1,911	8.8%
Interest	40	39	42	48	61	52.5%	28.3%	145	161	10.7%
PBT	472	547	543	385	409	-13.3%	6.2%	1,686	1,858	10.2%
Exceptional Item	(4)	(2)	194	(6)	260	5976.0%	4145%	0	180	
Tax	106	115	120	(26)	91	-14.1%	450.8%	379	405	6.7%
PAT	362	430	617	405	578	59.6%	42.6%	1,308	1,634	24.9%
PAT Margin	14%	16%	24%	16%	22%	7.3%	5.4%	14%	17%	2%

Erratic monsoon in some parts impacted domestic sales

In 2QFY19, Godrejcp's domestic sales remained impacted on account of 2% YoY decline in sales of HI due to inadequate monsoon in South and East India. These two regions contribute to the extent of ~60% of sales in this category and also witnessed competition from incense sticks as a result of which domestic total revenue remained affected. However, the Non HI portfolio which consist of Soaps, Hair colour and others posted a double digit growth of 11%,21% and 36% YoY respectively backed by continued innovations and activations in the existing product portfolio. Some of the new launches that company undertook are powder to liquid handwash, Herbal hair colour powde.

Higher A&P expenses and input cost in GAUM impacted EBITDA margins

IB posted a growth of 6% in cc terms while the EBITDA margin declined by 430bps YoY to 13.1% which was on due to Soft performance in GAUM and others. EBITDA margin of GAUM and others countries declined by 710bps and 590bps to 9% and 8% respectively on account of timing difference between increasing input prices and price hike taken by the company, currency devaluation in Argentina & South Africa and increased A & P expenses while Indonesia posted a growth in margins to the extent of 50bps to 24% YoY led by cost savings initiatives. The company continues to gain market share with leadership position in HI in Indonesia. However, for Latin America, company will be focused towards driving profitability led by cost saving and price increase taken by the company. Domestic EBITDA margin improved by 100 bps led by benign palm oil and cost efficiency measures.

Concall Highlights

- ❑ Overall demand is good and continued with gradual uptick. Rural continues to outperform Urban.
- ❑ For HI revival, company is working on developing the category, boosting deeper penetration, creating higher efficacious and affordable product.
- ❑ The company continues to save cost in the range of 2% of sales under its project PI scheme.
- ❑ Management expects strong domestic growth in 2HFY19 led by innovation and rural growth.
- ❑ The company has launched expert long lasting Magic Paper in Indonesia inQ2FY19. Indonesia business momentum is expected to sustain for 2HFY19.
- ❑ The company is facing problem in South Africa business which is in the middle of recession. Problem is due to low cost competition.
- ❑ Going forward management expects better margin from Africa business led by cost efficiency measures, pricing action taken by the company and benefits of operating leverages.
- ❑ 2HFY19 is expected to be better for Africa led by new launches and lower base.

Exhibit: Domestic Soap Business Growth

Soap business continues its momentum backed by micro-mark. initiatives, focus on new states & gaining market share.

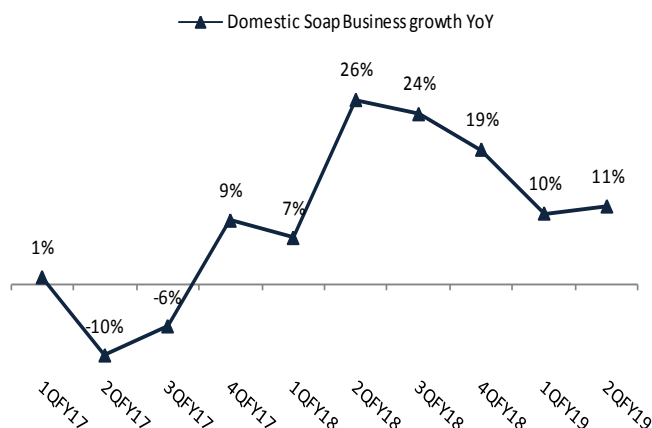


Exhibit: Domestic HI Business Growth

Domestic HI business declined due to erratic monsoon and facing competition from incense stick manufactures.

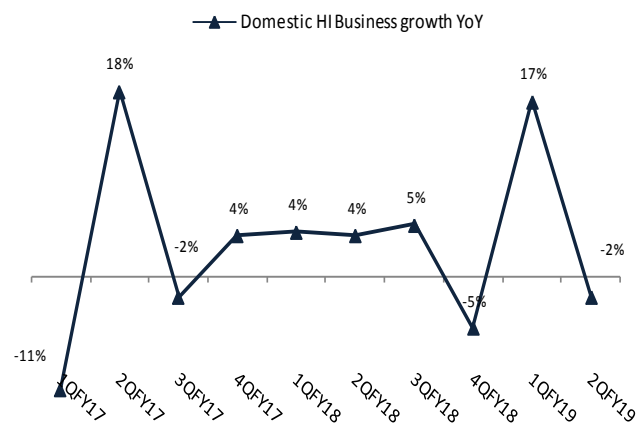


Exhibit: Domestic Hair Colour Business Growth

Strong growth in Hair colour led by better traction from Godrej Expert Rich Crème and Nupur Herbal Based Powder.

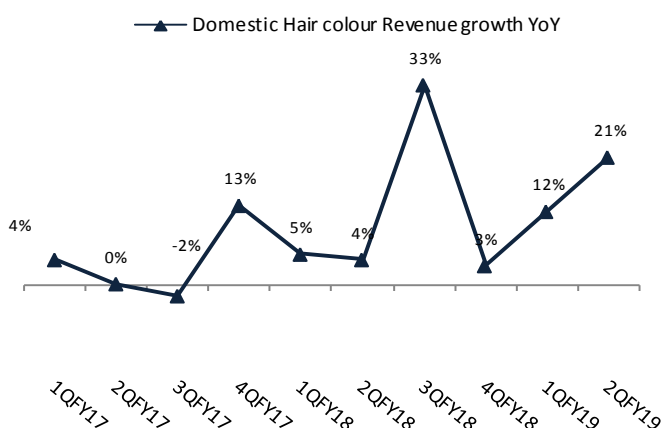


Exhibit: Indonesia Market CC Growth

New product launches and effective sales promotion helped in 14% cc growth for Indonesia.



Exhibit: Sales and Sales Growth

Sales for the quarter grew by 6% impacted by lower growth in HI and muted growth in Africa business.

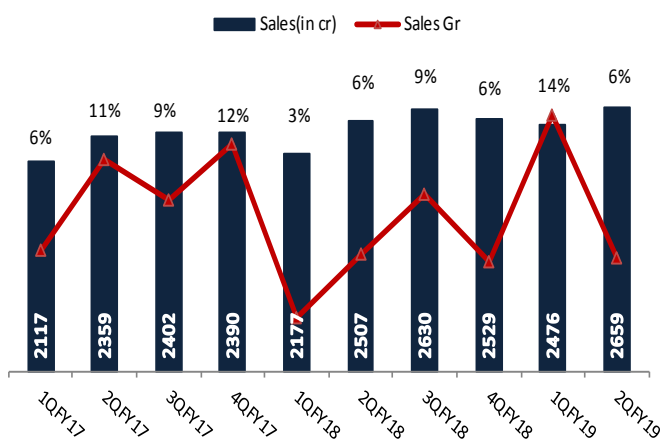
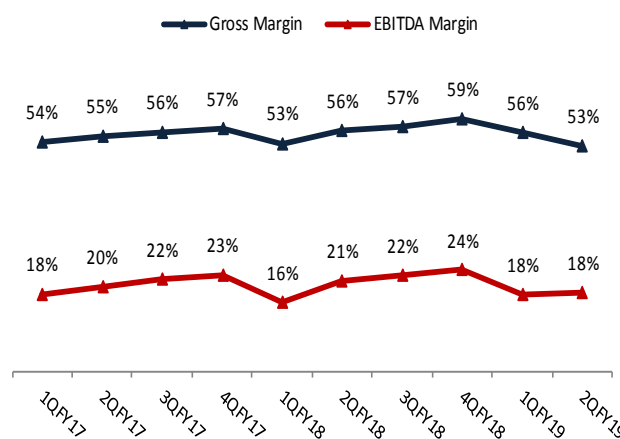


Exhibit: Gross and EBITDA margin

Gross margin declined by 346 bps led by lower margin from the Africa business.



Financial Details

Balance Sheet

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Share Capital	34	34	34	34	34	68	102	102
Reserves	3,279	3,741	4,277	4,233	5,268	6,190	7,013	7,854
Networth	3,313	3,775	4,311	4,267	5,302	6,258	7,116	7,956
Debt	1,949	1,702	2,170	2,631	3,341	2,521	2,421	1,721
Other Non Current Liab	33	34	34	313	1,238	1,159	1,159	1,159
Total Capital Employed	5,262	5,477	6,480	6,898	8,643	8,779	9,536	9,676
Net Fixed Assets (incl CWIP)	1,728	1,736	1,732	1,831	3,524	3,680	3,700	3,677
Non Current Investments	-	34	34	-	-	-	-	-
Other Non Current Assets	3,124	3,736	4,287	4,339	4,969	4,884	4,884	4,884
Non Current Assets	4,853	5,506	6,052	6,259	8,814	8,795	8,815	8,792
Inventory	1,047	1,082	1,072	1,307	1,413	1,578	1,724	1,946
Debtors	729	711	805	1,118	1,029	1,246	1,361	1,536
Cash & Bank	748	705	894	613	895	898	1,316	1,373
Other Current Assets	325	320	319	305	830	1,182	1,657	1,903
Current Assets	2,848	2,818	3,090	3,494	4,217	5,168	6,279	7,007
Creditors	1,035	1,234	1,087	1,485	1,724	2,357	2,576	2,907
Provisions	57	56	98	70	90	48	52	59
Other Current Liabilities	1,104	1,298	1,281	315	307	311	340	384
Curr Liabilities	2,197	2,588	2,466	2,533	3,150	4,024	4,398	4,963
Net Current Assets	652	230	624	962	1,067	1,143	1,881	2,044
Total Assets	7,701	8,325	9,142	9,754	13,031	13,963	15,094	15,799

Income Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Revenue from Operation	6,416	7,602	8,276	8,424	9,268	9,843	10,757	12,140
Change (%)		18%	9%	2%	10%	6%	9%	13%
EBITDA	982	1,150	1,365	1,636	1,898	2,067	2,211	2,594
Change (%)		17%	19%	20%	16%	9%	7%	17%
Margin (%)	15%	15%	16%	19%	20%	21%	21%	21%
Depr & Amor.	77	82	91	101	142	156	172	173
EBIT	905	1,068	1,275	1,535	1,756	1,911	2,039	2,421
Int. & other fin. Cost	77	107	100	119	145	161	219	158
Other Income	68	63	92	84	75	108	120	129
EBT	896	1,024	1,266	1,500	1,686	1,858	1,939	2,392
Exp Item	129	6	(17)	(334)	0	180	253	-
Tax	179	210	272	336	379	405	330	567
Minority Int & P/L share of Ass.	49	60	69	3	1	1	1	1
Reported PAT	796	760	907	828	1,308	1,634	1,864	1,826
Adjusted PAT	693	755	921	1,086	1,308	1,494	1,654	1,826
Change (%)		9%	22%	18%	20%	14%	11%	10%
Margin(%)	11%	10%	11%	13%	14%	15%	15%	15%

Financial Details

Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
ROE	21%	20%	21%	25%	25%	24%	23%	23%
ROCE	17%	20%	20%	22%	20%	22%	21%	25%
Asset Turnover	0.8	0.9	0.9	0.9	0.7	0.7	0.7	0.8
Debtor Days	41	34	35	48	41	46	46	46
Inv Days	60	52	47	57	56	59	59	59
Payable Days	59	59	48	64	68	87	87	87
Int Coverage	12	10	13	13	12	12	9	15
P/E	38	38	30	46	43	48	44	40
Price / Book Value	8	8	6	12	11	12	10	9
EV/EBITDA	28	26	21	31	31	36	34	28
FCF per Share	5	10	8	6	16	14	21	21
Div Yield	1.9%	1.2%	1.4%	0.8%	0.7%	0.9%	1.1%	1.1%

Cash Flow Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
PBT	896	1,024	1,266	1,500	1,687	1,859	2,194	2,393
(inc)/Dec in Working Capital	(70)	199	(113)	(486)	301	(16)	62	95
Non Cash Op Exp	71	59	63	116	140	196	172	173
Int Paid (+)	77	107	100	119	145	161	219	158
Tax Paid	(207)	(238)	(257)	(336)	(407)	(393)	(330)	(567)
others	53	(23)	(54)	(66)	(61)	(84)	-	-
CF from Op. Activities	820	1,129	1,005	847	1,805	1,723	2,317	2,251
(inc)/Dec in FA & CWIP	(264)	(133)	(190)	(208)	(180)	(311)	(191)	(150)
Free Cashflow	557	996	814	639	1,625	1,412	2,126	2,101
(Pur)/Sale of Inv	16	74	(450)	210	(393)	214	(444)	(200)
others	(618)	(436)	(574)	(605)	(1,597)	(146)	-	-
CF from Inv. Activities	(865)	(495)	(1,214)	(602)	(2,170)	(340)	(636)	(350)
inc/(dec) in NW	-	0	-	0	0	0	-	-
inc/(dec) in Debt	557	(321)	300	142	1,024	(488)	(100)	(700)
Int. Paid	(84)	(113)	(119)	(119)	(124)	(158)	(219)	(158)
Div Paid (inc tax)	(162)	(170)	(179)	(187)	(196)	(613)	(839)	(822)
others	(30)	(29)	(14)	(38)	(40)	(125)	(168)	(164)
CF from Fin. Activities	282	(633)	(12)	(202)	665	(1,384)	(1,326)	(1,844)
Inc(Dec) in Cash	237	1	(221)	43	300	(0)	356	57
Add: Opening Balance	388	624	625	536	594	894	960	1,316
Closing Balance	624	625	404	613	895	898	1,316	1,373

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Correspondence Office Address: Arch Waterfront, 5th Floor, Block GP, Saltlake, Sector 5, Kolkata 700 091; Tel No.: 033-40541700; www.narnolia.com.
Registered Office Address: Marble Arch, Office 201, 2nd Floor, 236B, AJC Bose Road, Kolkata 700 020; Tel No.: 033-4050 1500; www.narnolia.com

Compliance Officer: Manish Kr Agarwal, Email Id: mkagarwal@narnolia.com, Contact No.:033-40541700.

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